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# Consignment Accounts

## Introduction

Business organisations sometimes market their goods through agents as an alternative to selling goods themselves. Consignment is a kind of business expansion without actually opening a branch in a new potential market. In consignment, a manufacturer or wholesaler despatches goods to an agent who has a better knowledge of the local market, for the purpose of sale. The person sending the goods is called the ***consignor*** and the agent who receives the goods is called the ***consignee***. The consignee markets the product within his own periphery and receives commission at a stipulated rate on the total sales. He is also entitled to recover such expenses which he incurs in connection with the consignment. The consignee does not only market the product but discharges the function of sales promotion also. If he fails to perform this function, he may well be replaced by another. On the other hand, if the consignee finds that the business is not remunerative enough for him, he may well give it up and may not be interested to renew the contract for consignment. Consignment accounts are the accounts recording the transactions relating to the goods sent on consignment.

### Economics of Consignment

Consignment flourishes because of its inherent economies. ***First***, it is cost saving. It dispenses with the need of branch opening at distant place or places with heavy cost implications. ***Secondly***, the manufacturer may not have the capacity to open branches while he intends to tap distant markets. Consignment fulfils both the needs. Consignment facilitates expansion without much initial and on-going costs. In short, it is the simplest and more economical way of territorial expansion and, as such, a mode of growth for manufacturing companies.

### Distinction Between Sale and Consignment

| | Sale | | Consignment |
|---|---|---|---|
| (a) | In case of a sale, property in goods is transferred to the buyer along with the transfer of goods. | (a) | In case of a consignment, goods remain the property of the consignor until the time they are sold by the consignee. |
| (b) | Goods once sold cannot be returned to the seller except when they are defective or the seller agrees to take those back. | (b) | Unsold goods of consignment are the property of the consignor and can be returned to him. |

| | | | |
|---|---|---|---|
| (c) | When goods are sold on credit, the buyer becomes the debtor of the seller. The relationship between the buyer and seller is that of debtor and creditor. | (c) | When goods are sold on credit, the buyer becomes the debtor of the consignor. The relationship between the consignor and the consignee is that of a principal and an agent. |
| (d) | When goods are lost after delivery to the buyer, it is the buyer who will bear the loss. | (d) | When goods are lost on consignment, it is the consignor who will bear the loss. |

## Procedure for Consignment Transactions

The consignor sends goods to the consignee along with a ***Proforma Invoice***. An invoice is a document sent by a seller to a buyer giving details of goods or services sold, their price and terms of payments. A proforma invoice is a document to show what the invoice would be. It is not a demand for payment. It is a memorandum invoice and serves as a guide to the consignee in respect of (1) description of the goods and (2) minimum selling price to be realised. In the case of foreign consignments, the 'Proforma Invoice' serves as a prime document for customs clearance.

When goods are sent to the consignee the consignor makes a record of the consignment giving full details of the goods, their cost prices and the expenses incurred.

After receiving goods, the consignee tries to sell them at the best possible price. ***It should be noted that mere receipt of the goods does not make the consignee a debtor of the consignor***. He becomes indebted to the consignor when he sells the goods and realizes the money. The consignee may have to spend some money in respect of the consignment such as unloading charges, godown rent and the like for which he is entitled to be reimbursed. It is the duty of the consignee to remit the proceeds of sales after deducting his expenses in respect of the consignment and his own commission, to the consignor. The details of sale proceeds, expenses and commission are contained in an accompanying statement known as **'*Account Sales*.'**

An ***Account Sales*** is a statement which is periodically rendered by the consignee to the consignor, showing the details about the goods sold, price realized, his own commission, and the expenses incurred in connection with the sale.

### *Illustrative Example*

On 15th November 2016, Kapil & Co of Chandigarh consigned 250 bicycles to Arun & Co Calcutta. On 31st December 2016, Arun forwarded an Account Sales, with a bank draft for the balance, showing the following transactions:

1. 200 bicycles sold @ ₹ 600 each and 50 @ ₹ 560 each.
2. Unloading charges ₹ 500.
3. Storage and Insurance ₹ 1,000.
4. Commission on Sales @ 10%.

You are required to prepare the Account Sales.

**Arun & Co** **35, Park Street, Calcutta 700 016**
**31st December, 2016**

**Account Sales of 250 bicycles sold by order and for account of Kapil & Co.**

| | ₹ | ₹ |
|---|---|---|
| Gross Proceeds | | |
| 200 @ ₹ 600 each | 1,20,000 | |
| 50 @ ₹ 560 each | 28,000 | 1,48,000 |
| *Less: Charges* | | |
| Unloading charges | 500 | |
| Storage & Insurance | 1,000 | |
| Commission @ 10% on ₹ 1,48,000 | 14,800 | 16,300 |
| Net proceeds | | 1,31,700 |

Bank draft enclosed, ₹ 1,31,700 (Rupees one lakh thirty one thousand seven hundred only)

E. & O. E.

(Signed) Arun & Co Calcutta

## Entries in the Books of the Consignor

The primary objective for preparing the Consignment Account is to ascertain the profit or loss on each consignment separately. For that, the consignor prepares a ***Consignment Account*** for each consignment. This special account is always named with either the consignee or the place, for example 'Consignment to Arun & Co Account' or 'Consignment to Calcutta Account'—just to distinguish one consignment from another. Consignment account is a ***Nominal Account***. In fact, it is a combined Trading and Profit and Loss Account related solely to the consignment. This account is debited with : (1) opening stock on consignment (if any); (2) cost of goods sent on consignment; (3) expenses incurred by the consignor, such as freight, insurance for sending goods; (4) expenses incurred by the consignee such as unloading charges, godown rent and the like; and (5) consignee's commission on sales. This account is credited with : (1) gross sales proceeds; and (2) closing stock (if any). The balance of this account represents profit or loss which is transferred to ***'Profit & Loss on Consignment Account'***. At the year end, the balance of the Profit and Loss on Consignment Account is transferred to the General Profit and Loss Account.

The secondary objective of the consignor is to ascertain the amount due from the consignee. For this purpose, he opens a personal account of the consignee. The Consignee Account is debited with gross sales proceeds and credited with: (1) advance made by him (if any); (2) expenses incurred by him in respect of the consignment; and (3) his own commission on sales. The balance shows the amount due from the consignee.

***The consignor may price the goods sent on consignment either at 'cost price' or at a higher price which is called 'invoice price'. The accounting procedure in the two cases is slightly different. Therefore, we discuss them separately.***

## Cost Price Method

Journal entries are as under:

*1. For sending goods to the consignee*

| | | |
|---|---|---|
| Consignment to ... Account | Dr. | [cost price] |
| To Goods Sent on Consignment Account | | [cost price] |

*2. For payment of expenses by the consignor*

| | | |
|---|---|---|
| Consignment to ... Account | Dr. | |
| To Cash or Bank Account | | [If paid] |
| To Creditors for Expenses Account | | [If unpaid] |

*3. For receipts of advance from the consignee*

*(a) When payment is received in cash or Bank Draft*

| | | |
|---|---|---|
| Cash or Bank Account | Dr. | |
| To Consignee Account | | |

*(b) When a bill is accepted by the consignee*

| | | |
|---|---|---|
| Bills Receivable Account | Dr. | |
| To Consignee Account | | |

*4. When Account Sales is received from the consignee*

Immediately after receiving the Account Sales, the consignor passes the following entries:

*(a) For sale of goods by the consignee*

| | | |
|---|---|---|
| Consignee Account | Dr. | [Gross sales proceeds] |
| To Consignment to ... Account | | |

*(b) For expenses incurred by the consignee*

| | | |
|---|---|---|
| Consignment to ....Account | Dr. | |
| To Consignee Account | | |

*(c) For the commission of the consignee*

| | | |
|---|---|---|
| Consignment to ... Account | Dr. | |
| To Consignee Account | | |

*(d) For receiving remittance from the consignee*

Cash or Bank Account Dr.
To Consignee Account

*5. If the consignee completes the sales before the end of the consignor's accounting year, the consignor closes the Consignment Account by passing the following entry :*

*(a) When there is a profit on consignment*

Consignment to ... Account Dr.
To Profit and Loss on Consignment Account

*(b) When there is a loss on consignment*

Profit and Loss on Consignment Account Dr.
To Consignment to ... Account

***The students should note that a transfer to the Profit and Loss Account would close the Consignment Account but, it is not possible to wait until the Profit and Loss Account is prepared at the end of the accounting year. To overcome this hardship, the profit or loss on consignment is transferred to a special account called 'Profit and Loss on Consignment Account.' This account will also serve the purpose of combining the profits and losses of all consignments in the accounting year. At the end of the year it is transferred to the Profit and Loss Account.***

*6. At the end of the financial year, the Goods Sent on Consignment Account is closed by passing the following entry:*

*(a) If the consignor is a manufacturer*

Goods Sent on Consignment Account Dr.
To Trading Account

*(b) If the consignor is a wholesaler*

Goods Sent on Consignment Account Dr.
To Purchase Account

The above adjustment entry should be passed to find out the correct profit of 'General Profit and Loss Account'. We know that every manufacturer prepares Manufacturing Account and the total cost of goods produced is transferred to Trading Account by debiting Trading Account and crediting Manufacturing Account. Now, if any goods have been sent on consignment, out of those goods, the Trading Account must be credited with the cost of goods sent on consignment. If this is not done, the general profit will be understated. Similarly, when the consignor is a wholesaler, whatever he purchases he debits his Purchases Account. Now if any goods that have been sent on consignment out of these goods, ***the Purchases Account must be reduced to that extent*** and the adjusted purchases should be debited to General Trading Account. If this adjustment is not done, the general profit will be understated.

### *Illustration 1*

On 1st March, 2016 Kamal of Calcutta sends 1,000 boxes of tea to Bimal of Bombay on consignment basis. Each box costs ₹ 500. Kamal pays railway freight ₹ 1,000 and insurance ₹ 2,000 and draws upon Bimal a bill for ₹ 2,00,000 for 3 months which was duly accepted and returned.

On 30th September, 2016 Bimal forwards an Account Sales to Kamal showing that 500 boxes have been sold @ ₹ 560 each while 300 boxes were sold @ ₹ 550 each and the remaining boxes were sold @ ₹ 540 each. The expenses incurred by Bimal consisted of carriage charges ₹ 500; and godown rent ₹ 3,500. Bimal is entitled to a commission @ 5% on gross sales proceeds. He encloses a cheque for the balance due to Kamal.

Show how these transactions would be recorded in the books of Kamal, assuming that the bill of exchange was met on its due date. Also assume that Kamal closes the books on 31st December.

**Solution** **In the books of Kamal**

**Journal**

| Date | Particulars | | Dr. ₹. | Cr. ₹. |
|---|---|---|---|---|
| 2016 Mar. 1 | Consignment to Bimal A/c | Dr. | 5,00,000 | |
| | To Goods sent on Consignment A/c | | | 5,00,000 |
| | (Being goods sent on consignment to Bombay) | | | |

| | | | | |
|---|---|---|---|---|
| | *Consignment to Bimal A/c | Dr. | 3,000 | |
| | To Cash A/c | | | 3,000 |
| | (Being freight ₹ 1,000 and insurance ₹ 2,000 paid for sending goods) | | | |
| | Bills Receivable A/c | Dr. | 2,00,000 | |
| | To Bimal A/c | | | 2,00,000 |
| | (Being a bill drawn on Bimal for 3 months) | | | |
| June 4 | *Bank A/c | Dr. | 2,00,000 | |
| | To Bills Receivable A/c | | | 2,00,000 |
| | (Being the bill met at maturity) | | | |
| Sept 30 | Bimal A/c | Dr. | 5,53,000 | |
| | To Consignment to Bimal A/c | | | 5,53,000 |
| | (Being goods sold by Bimal) | | | |
| | Consignment to Bimal A/c | Dr. | 4,000 | |
| | To Bimal A/c | | | 4,000 |
| | (Being expenses paid by Bimal in respect of consignment) | | | |
| | Consignment to Bimal A/c | Dr. | 27,650 | |
| | To Bimal A/c | | | 27,650 |
| | (Being commission charged by Bimal @ 5% on ₹ 5,53,000) | | | |
| | *Bank A/c | Dr. | 3,21,350 | |
| | To Bimal A/c | | | 3,21,350 |
| | (Being a cheque received for the balance due) | | | |
| | Consignment to Bimal A/c | Dr. | 18,350 | |
| | To Profit & Loss on Consignment A/c | | | 18,350 |
| | (Being profit on consignment transferred to Profit and Loss on Consignment Account) | | | |
| Dec 31 | Profit & Loss on Consignment A/c | Dr. | 18,350 | |
| | To Profit & Loss A/c | | | 18,350 |
| | (Being transferred to Profit and Loss Account) | | | |
| | Goods sent on Consignment A/c | Dr. | 5,00,000 | |
| | To Purchases A/c | | | 5,00,000 |
| | (Being the adjustment for goods sent on consignment) | | | |

*These entries should be recorded in the Cash Book.

## Ledger

**Dr. Consignment to Bimal Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | To Goods sent on Consignment A/c | 5,00,000 | 2016 | By Bimal A/c (Sales) | 5,53,000 |
| Mar 1 | To Cash A/c (Expenses) | 3,000 | Sept 30 | | |
| Sept 30 | To Bimal A/c | | | | |
| | Carriage | 500 | | | |
| | Godown Rent | 3,500 | | | |
| | Commission | 27,650 | | | |
| | To Profit & Loss on Consignment A/c transfer | 18,350 | | | |
| | | 5,53,000 | | | 5,53,000 |

**Dr. Goods sent on Consignment Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec 31 | To Purchases A/c | 5,00,000 | Mar 1 | By Consignment to Bimal A/c | 5,00,000 |

**Dr. Bimal Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Sept 30 | To Consignment to Bimal A/c | 5,53,000 | Mar 1 | By Bills Receivable A/c | 2,00,000 |
| | | | Sept 30 | By Consignment to Bimal A/c | 31,650 |
| | | | | By Bank A/c | 3,21,350 |
| | | 5,53,000 | | | 5,53,000 |

**Dr. Profit & Loss on Consignment Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec 31 | To Profit & Loss A/c | 18,350 | Sept 30 | By Consignment to Bimal A/c | 18,350 |

**Dr.** **Bills Receivable Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Mar 1 | To Bimal A/c | 2,00,000 | 2016 June 4 | By Bank A/c | 2,00,000 |

**Dr.** **Purchases Account (inclusive)** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | | | 2016 Dec 31 | By Goods sent on Consignment A/c | 5,00,000 |

**Profit & Loss Account for the year ended 31st December, 2016 [Extract]**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| | | By Profit & Loss on consignment A/c | 18,350 |

## Incomplete Consignment and Valuation of Closing Stock

It is not necessary that all consignments should be completed during the accounting year. There may be certain consignments which are incomplete when the consignor's accounting year comes to an end. Under such a situation, the consignee will be required to submit an Account Sales stating sales, expenses and commission upto the ***last date*** of the accounting year. After receiving the Account Sales, the unsold stock with the consignee should be valued. The stock so valued should be credited to the Consignment Account. The entry is:

Stock on Consignment Account Dr.
To Consignment to ... Account

In the Balance Sheet, this stock is shown as an asset. In the ***next accounting year***, this stock is transferred to Consignment Account. The following entry is passed:

Consignment to .... Account Dr.
To Stock on Consignment Account

## Valuation of Unsold Stock

Now, we discuss the principles and procedures for valuation of consignment stock. We know that stock should be valued at ***cost or market price, whichever is lower***. This, principle applies to consignment stock as well.

The main problem is to ascertain 'cost price' and 'market price.' ***'Cost' includes all expenditure incurred in bringing the goods to a saleable condition and all expenses incurred for sending goods upto the consignee's place. These include freight, carriage, export or import duties, insurance on goods sent, loading and unloading charges, and the like. It should be noted that the expenses may be incurred either by the consignor or by the consignee. All the above expenditures which are included in the cost are popularly known as Non-Recurring Expenditures***. The expenditure incurred after the goods have reached the consignee's place should be ignored for the valuation of stock on consignment. These include godown rent, carriage on sales, establishment expenses, insurance for godown or any other selling expenses.

*In the examination, the following format should be followed for valuation of consignment stock :*

**Valuation of Closing Stock**

| Particulars | ₹. | ₹. |
|---|---|---|
| **Cost price of goods sent** | | ***** |
| Add : *Consignor's Expenses* | **** | |
| Freight | **** | |
| Carriage | **** | |
| Loading & Unloading charges | **** | |
| Insurance on goods sent | **** | |
| Export & Import duties | **** | |
| Dock dues etc. | **** | ***** |
| Add : *Consignee's Expenses* | **** | |
| Cartage | **** | |
| Landing charges | **** | |
| Unloading Expenses | **** | ***** |
| **Total Cost** | | ***** |

$$\text{The cost of unsold goods} = \frac{Total\ \ Cost}{Total\ \ quantity} \text{ x } Unsold\ \ quantity$$

**Alternatively,**

**Valuation of Closing Stock**

| Particulars | ₹. | ₹. |
|---|---|---|
| **Cost price of goods unsold** | | ***** |
| Add : Proportionate non recurring Expenses by: | | |
| Consignor | **** | |
| Consignee | **** | ***** |

At the end of the accounting year, if some part of the goods are still in transit, the expenses of the consignee are generally not taken into consideration for the valuation of stock in transit

Here, ***'Market Price'*** refers to ***Net Realizable Value (NRV). Applying the concept of conservatism, all other possible expenses to be incurred in selling those goods are to be provided for, which will include the amount of commission payable to the consignee.***

After computing the ***'Cost Price'*** and ***'Market Price'*** in the above manner, the smaller one should be taken as the value of stock on consignment. ***In the examination problem, if there is no indication regarding market price, we should assume that market price is more than the cost price and valuation should be done accordingly.***

### *Illustration 2*

On 30th September, 2016, Dey's Medical of Calcutta sends 500 cases of medicine costing ₹ 1,000 per case to Medicine Corner of Delhi on consignment basis. Dey's Medical incurred the following expenses: packing expense @ ₹ 20 per case (paid in cash); insurance premium ₹ 2,000 (paid by cheque); freight ₹ 10,000 (paid in cash); forwarding agent's expenses ₹ 1,000 (due).

On 31st December, 2016, Medicine Corner forwards an Account Sales to Dey's Medical showing that 200 cases have been sold @ ₹ 1,250 per case while 250 cases were sold @ ₹ 1,200 per case and the 50 cases remained unsold. Medicine Corner paid the following expenses : cartage ₹ 2,000; unloading ₹ 1,000 and ₹ 2,000 as godown rent. Account Sales accompanying an account payee cheque for ₹ 4,00,000.

Under the agreement Medicine Corner was to receive 5% commission on sales.

You are required to show: (1) Consignment to Delhi Account; (2) Medicine Corner Account; (3) Stock on Consignment Account; and (4) Goods sent on Consignment Account in the Ledger of Dey's Medical and Balance Sheet.

**Solution** **In the books of Dey's Medical**

**Dr.** **Consignment to Delhi Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | To Goods Sent on Consignment A/c | 5,00,000 | 2016 | By Medicine Corner A/c | |
| Sept 30 | To Cash A/c | | Dec 31 | 200 @ ₹ 1,250 | 2,50,000 |
| | Packing | 10,000 | | 250 @ ₹ 1,200 | 3,00,000 |
| | Freight | 10,000 | " | By Stock on Consignment A/c (Note 1) | 52,600 |
| | To Bank A/c | | | | |
| | Insurance premium | 2,000 | | | |
| | To Creditors for Expenses A/c | | | | |
| | Forwarding Agent's expenses | 1,000 | | | |
| Dec 31 | Medicine Corner A/c | | | | |
| | Cartage | 2,000 | | | |
| | Unloading | 1,000 | | | |
| | Godown Rent | 2,000 | | | |
| | Commission | 27,500 | | | |
| " | To Profit & Loss on Consignment A/c | 47,100 | | | |
| | | 6,02,600 | | | 6,02,600 |

**Dr.** **Medicine Corner Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | To Consignment to Delhi A/c | 5,50,000 | 2016 | By Bank A/c | 4,00,000 |
| Dec 31 | | | Dec 31 | By Consignment to Delhi A/c | 32,500 |
| | | | " | By Balance c/d | 1,17,500 |
| | | 5,50,000 | | | 5,50,000 |

**Dr.** **Stock on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec. 31 | To Consignment to Delhi A/c | 52,600 | Dec 31 | By Balance c/d | 52,600 |

**Dr.** **Goods sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec 31 | To Trading A/c | 5,00,000 | Sept 30 | By Consignment to Delhi A/c | 5,00,000 |

**Balance Sheet of Dey's Medical as at 31st December, 2016 [Extract]**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| | | Medicine Corner | 1,17,500 |
| | | Stock on consignment | 52,600 |

**Working Notes :**

| **(1) Valuation of Closing Stock** | ₹ |
|---|---|
| **Cost price : 500 cases @ ₹ 1,000 per case** | 5,00,000 |
| **Consignor's Expenses** | |
| Packing (₹ 10,000) + Freight (₹ 10,000) + Insurance (₹ 2,000) + Forwarding Agent's Expenses (₹ 1,000) | 23,000 |
| **Consignee's Expenses** | |
| Cartage (₹ 2,000) + Unloading (₹ 1,000) | 3,000 |
| **Total cost :** | 5,26,000 |

$$\text{Value of unsold stock} = \frac{5,26,000}{500} \times 50 = ₹\ 52,000.$$

### *Illustration 3*

On 1st January, 2016 Chatterjee Bros of Calcutta shipped to Shanton Bros of Tokyo 400 musical instruments at the rate of ₹ 350 each. Chatterjee Bros incurred the following expenses on the consignment: cartage ₹ 150, freight ₹ 1,950 and Insurance ₹ 2,500.

The charges incurred by Shanton Bros were landing charges ₹ 450; storage ₹ 1,500 and ₹ 1,250 as fire insurance premium on stock.

On 31st December, 2016, an Account Sales was received from Shanton Bros disclosing that 350 instruments were sold out at ₹ 950 per instrument. Towards the close of the year, suddenly a new type of instrument appeared in the market and there was no possiblity of selling the balance of the goods at a high price. The market price fell down to ₹ 250 per instrument. In the Account Sales, besides their expenses Shanton Bros., charged commission at 15% on the gross sale proceeds. The unsold goods were held by them. A bank draft for the amount due was sent along with the Account Sales.

You are required to prepare:

(1) Consignment to Tokyo Account; (2) Shanton Bros Personal Account; and (3) Goods Sent on Consignment Account in the Ledger of Chatterjee Bros.

**Solution** **In the books of Chatterjee Bros**

**Dr.** **Consignment to Tokyo Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | To Goods sent on Consignment A/c | 1,40,000 | 2016 | By Shanton Bros A/c | |
| Jan 1 | To Cash A/c | | Dec 31 | 350 @ ₹ 950 each | 3,32,500 |
| | Cartage | 150 | " | By Stock on Consignment A/c (Note 1) | 10,625 |
| | Freight | 1,950 | | | |
| | Insurance | 2,500 | | | |
| Dec. 31 | To Shanton Bros A/c | | | | |
| | Landing charges | 450 | | | |
| | Storage | 1,500 | | | |
| | Insurance | 1,250 | | | |
| | Commission | 49,875 | | | |
| " | To Profit & Loss on Consignment A/c | 1,45,450 | | | |
| | | 3,43,125 | | | 3,43,125 |

**Dr.** **Shanton Bros Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Consignment to Tokyo A/c | 3,32,500 | 2016 Dec 31 | By Consignment to Tokyo A/c | 53,075 |
| | | | | By Bank A/c (Balance) | 2,79,425 |
| | | 3,32,500 | | | 3,32,500 |

**Dr.** **Goods sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Purchases A/c | 1,40,000 | 2016 Jan 1 | By Consignment to Tokyo A/c | 1,40,000 |

**Valuation of Closing Stock**

| Particulars | ₹ |
|---|---|
| **Cost price : 400 instruments @ ₹ 350 each** | 1,40,000 |
| **Consignor's Expenses** | |
| Cartage (₹ 150) + Freight (₹ 1,950) + Insurance (₹ 2,500) | 4,600 |
| **Consignee's Expenses** | |
| Landing charges | 450 |
| **Total cost** | 1,45,050 |

(a) Cost price of 50 instruments = $\frac{1,45,050}{400} \times 50$ = ₹ 18,131.25.

(b) Market Price of an instrument (₹ 250 × 50) = ₹ 12,500; Less: Commission @ 15% — 1,875 = ₹ 10,625;
Therefore, the value of closing stock = ₹ 10,625

## Entries in the Books of the Consignee

The following entries are to be made in connection with the consignment:

*1. For goods received on Consignment*

No entry is made in the books of the consignee because he holds these goods on behalf and on account of the consignor. He may, however, record the details of the goods received in a separate book, called the Consignment Inward Book.

*2. For advance made to the consignor*

*(a) When payment is made by cash or bank draft*

Consignor Account Dr.
To Cash or Bank Account

*(b) When a bill of exchange is accepted*

Consignor Account Dr.
To Bills Payable Account

*3. For Payment of Expenses in respect of the consignment*

Consignor Account Dr.
To Cash or Bank Account

*(4) For Sale of goods*

*(a) When goods are sold for cash*

Cash or Bank Account Dr.
To Consignor Account

*(b) When goods are sold on credit*

[*See 'Credit Sales and Del credere Commission'*]

*5. For Commission*

The calculation of actual commission will depend on the agreement between the consignor and the consignee. The entry to be passed:

Consignor Account Dr.
To Commission Received Account

*6. For sending a remittance*

Consignor Account Dr.
To Cash or Bank Account

On the last date of the accounting year, if there is any balance (Debit/Credit) in the Consignor Account, it should be shown in the Balance Sheet under Sundry Debtors or Sundry Creditors, depending upon the nature of the balance.

The student should note that the consignee will not make any entry in respect of stock on consignment. Similarly, he will not ascertain any profit or loss in respect of goods sold by him on behalf of the consignor. The commission received should be transferred to his Profit and Loss Account at the year end.

### *Illustration 4*

Taking the particulars from ***Illustration 2***, the entries in the books of consignee would be as under :

**Solution** **In the books of Medicine Corner**

**Journal**

| Date | Particulars | | Dr. ₹. | Cr. ₹. |
|---|---|---|---|---|
| 2016 Mar. 1 | *Dey's Medical A/c | Dr. | 5,000 | |
| | To Cash A/c | | | 5,000 |
| | (Being expenses incurred in respect of consignment) | | | |
| ? | *Cash A/c | Dr. | 5,50,000 | |
| | To Dey's Medical A/c | | | 5,50,000 |
| | (Being goods sold for cash on behalf of Dey's Medical, Calcutta) | | | |
| ? | Dey's Medical A/c | Dr. | 27,500 | |
| | To Commission Received A/c | | | 27,500 |
| | (Being commission on goods sold on behalf of the consignor) | | | |
| Dec 31 | *Dey's Medical A/c | Dr. | 4,00,000 | |
| | To Bank A/c | | | 4,00,000 |
| | (Being remittance by cheque) | | | |
| | Commission Received A/c | Dr. | 27,500 | |
| | To Profit & Loss A/c | | | 27,500 |
| | (Being commission received, transferred to Profit & Loss A/c) | | | |

*These entries should be recorded in the Cash Book.

**Ledger**

**Dr.** **Dey's Medical Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Mar. 1 | To Cash A/c | 5,000 | ? | By Cash A/c | 5,50,000 |
| Dec 31 | To Commission Received A/c | 27,500 | | | |
| " | To Bank A/c | 4,00,000 | | | |
| " | To Balance c/d | 1,17,500 | | | |
| | | 5,50,000 | | | 5,50,000 |

**Dr.** **Commission Received Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec. 31 | To Profit & Loss A/c | 27,500 | Dec. 31 | By Dey's Medical A/c | 27,500 |

### *Illustration 5*

Auto Agencies have sold the following goods on behalf of different parties for which they have incurred some expenses and are entitled to commission and reimbursement of expenses.

| Parties | Stock in hand | Goods received | Goods sold | Expenses | Remittances | Commission |
|---|---|---|---|---|---|---|
| Life Light (₹) | 8,000 | 20,000 | 24,000 | 600 | 20,000 | 10% |
| Silac (₹) | 12,000 | 30,000 | 26,000 | 400 | 22,000 | 6% |
| Akriti (₹) | 12,000 | 36,000 | 44,000 | 800 | 40,000 | 5% |

Prepare the Consignors' Accounts in the books of Auto Agencies.

**Solution** **In the books of Auto Agencies**

**Dr.** **Consignors' Accounts** **Cr.**

| Particulars | Life Light | Silac | Akriti | Particulars | Life Light | Silac | Akriti |
|---|---|---|---|---|---|---|---|
| To Bank A/c - expenses | 600 | 400 | 800 | By Bank A/c - sales | 24,000 | 26,000 | 44,000 |
| To Commission Received A/c | 2,400 | 1,560 | 2,200 | | | | |
| To Bank A/c - remittances | 20,000 | 22,000 | 40,000 | | | | |
| To Balance c/d (amount due) | 1,000 | 2,040 | 1,000 | | | | |
| | 24,000 | 26,000 | 44,000 | | 24,000 | 26,000 | 44,000 |

## Credit Sales and Del Credere Commission

It is not necessary that all the goods are to be sold by the consignee in cash. He may require to sell some part of the goods on credit. When goods are sold on credit, the problem of bad debt arises.

Whether the bad debts loss will be borne by the consignor or the consignee depends upon the fact whether del credere commission is given to the consignee or not.

***Remember: (1) The consignor will bear the bad debts loss if no del credere commission is given to the consignee. (2) The consignee will bear the bad debts loss if del credere commission is given to him.***

***Del Credere Commission*** is an additional commission paid to a consignee who guarantees the payment in case of credit sale. Where the consignee gets del credere commission, he indemnifies the consignor for all bad debts. To the consignor, it is a ***form of credit insurance.*** **Like ordinary commission, del credere commission is also paid, generally, at a predetermined percentage of the Gross Sales Proceeds. However, there may be a separate agreement between the parties for calculation of the del credere commission.**

***Accounting Entries for Credit Sales where no Del Credere Commission is given***

**In the books of the consignor**

*1. For Credit Sales*

Consignment Debtors Account Dr.
To Consignment to . . . Account

*2. For Collections from Debtors*

Bank or Cash Account Dr.(collected by consignor)
Consignee Account Dr. (collected by consignee)
To Consignment Debtors Account

*3. For Bad Debts / Discount Allowed*

Bad Debts /Discount Allowed Account Dr.
To Consignment Debtors Account

*4. For Closing Bad Debts / Discount Allowed Account*

Consignment to... Account Dr.
To Bad Debts /Discount Allowed Account

***Entries (3) and (4) can be clubbed and the following entry can be passed*** :

Consignment to . . . Account Dr.
To Consignment Debtors Account

**In the books of the Consignee**

*1. For credit sales* *No Entry*

*2. For Collections from Debtors*

Cash or Bank Account Dr.
To Consignor's Account

*3. For Bad Debts* *No Entry*

***Accounting Entries for Credit Sales where del credere commission is given***

**In the books of the consignor**

*1. For Credit Sales*

Consignee Account Dr.
To Consignment to ... Account

*2. For Bad Debts* — *No Entry*

*3. For Commission (Ordinary + del credere)*

Consignment to... Account Dr.
To Consignee Account

**In the books of the Consignee**

*1. For Credit Sales*

Consignment Debtors Account Dr.
To Consignor Account

*2. For Collections from Debtors*

Bank Account Dr.
To Consignment Debtors Account

*3. For Bad Debts*

Bad Debts Account Dr.
To Consignment Debtors Account

*4. For Closing Bad Debts*

Bad debts arising out of credit sale on consignment are adjusted against the commission received. The net balance of the commission received account is transferred to the Profit and Loss Account at the year end.

(i) Commission Received Account Dr.
To Bad Debts Account

(ii) Commission Received Account Dr.
To Profit and Loss Account

### *Illustration 6*

(a) On 1st November, 2016, C of Calcutta sends goods costing ₹ 1,00,000 to D of Delhi on consignment basis. C paid ₹ 5,000 as railway freight and ₹ 2,000 as insurance. On 31st December, 2016, an Account Sales was received from D disclosing that the entire quantity of goods were sold for ₹ 1,50,000 — out of which, ₹ 30,000 was sold on credit. A customer who purchased goods for ₹ 5,000 failed to pay and the debt proved bad. All other debts were collected by D in full. As per agreement, D is allowed a commission @ 10% on sales. D sends the amount due to C by a cheque.

Prepare necessary ledger accounts in the books of C and D.

(b) Will your answer be different, if in the above Illustration, the consignee is given a del credere commission of 5% on sales (in addition to ordinary commission)—other things remaining the same?

**Solution (a)** **In the books of C**

**Dr.** **Consignment to D Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Nov 1 | To Goods Sent on Consignment A/c | 1,00,000 | 2016 Dec 31 | By D A/c (Cash Sales) | 1,20,000 |
| | To Cash A/c | | | By Consignment Debtors A/c (Credit Sales) | 30,000 |
| | Railway Freight | 5,000 | | | |
| | Insurance | 2,000 | | | |
| Dec 31 | To D A/c (Commission @ 10%) | 15,000 | | | |
| " | To Consignment Debtors A/c (Bad Debts) | 5,000 | | | |
| " | To Profit & Loss on Consignment A/c | 23,000 | | | |
| | | 1,50,000 | | | 1,50,000 |

**Dr.** **D Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Consignment to D A/c | 1,20,000 | 2016 Dec 31 | By Consignment to D A/c | 15,000 |
| | To Consignment Debtors A/c | 25,000 | | By Bank A/c | 1,30,000 |
| | | 1,45,000 | | | 1,45,000 |

**Dr.** **Consignment Debtors Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Consignment to D A/c | 30,000 | 2016 Dec. 31 | By D A/c (Cash Collected)<br>By Consignment to D A/c (Bad Debt) | 25,000<br>5,000 |
| | | 30,000 | | | 30,000 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Purchases A/c | 1,00,000 | 2016 Nov. 1 | By Consignment to D A/c | 1,00,000 |

**In the Books of D**

**Dr.** **C Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Commission Received A/c<br>To Bank A/c | 15,000<br>1,30,000 | 2016 Dec. 31 | By Bank A/c (cash sales)<br>By Bank A/c (collection from debtors) | 1,20,000<br>25,000 |
| | | 1,45,000 | | | 1,45,000 |

**Dr.** **Commission Received Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Profit & Loss A/c | 15,000 | 2016 Dec. 31 | By C A/c | 15,000 |

**Solution (b)**

**In the Books of C**

**Dr.** **Consignment to D Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Nov 1 | To Goods Sent on Consignment A/c<br>To Cash A/c | 1,00,000 | 2016 | By D A/c (Sales) | 1,50,000 |
| | Railway Freight | 5,000 | | | |
| | Insurance | 2,000 | | | |
| Dec 31 | To D A/c | | | | |
| | Ordinary commission | 15,000 | | | |
| | Del Credere commission | 7,500 | | | |
| " | To Profit & Loss on Consignment A/c | 20,500 | | | |
| | | 1,50,000 | | | 1,50,000 |

**Dr.** **D Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Consignment to D A/c | 1,50,000 | 2016 Dec 31 | By Consignment to D A/c | |
| | | | | Ordinary commission | 15,000 |
| | | | | Del Credere commission | 7,500 |
| | | | | By Bank A/c | 1,27,500 |
| | | 1,50,000 | | | 1,50,000 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Purchases A/c | 1,00,000 | 2016 Nov. 1 | By Consignment to D A/c | 1,00,000 |

**In the Books of D**

**Dr.** **C Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Commission Received A/c | | 2016 Dec. 31 | By Bank A/c (Cash Sales) | 1,20,000 |
| | Ordinary commission | 15,000 | | By Consignment Debtors A/c | 30,000 |
| | Del Credere commission | 7,500 | | | |
| | To Bank A/c | 1,27,500 | | | |
| | | 1,50,000 | | | 1,50,000 |

**Dr.** **Consignment Debtors Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To C A/c | 30,000 | 2016 Dec. 31 | By Bank A/c (collection)<br>By Commission Received A/c (Bad Debts) | 25,000<br>5,000 |
| | | 30,000 | | | 30,000 |

**Dr.** **Commission Received Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec 31 | To Consignment Debtors A/c<br>To Profit & Loss A/c | 5,000<br>17,500 | 2016 Dec 31 | By C A/c | 22,500 |
| | | 22,500 | | | 22,500 |

### *Illustration 7*

Somali of Mumbai consigned 100 units of a commodity to Mohua of Kolkata. The goods were invoiced at ₹ 300 so as to yield a profit of 50% on cost. Somali incurred ₹ 2,000 on freight and insurance. Mohua incurred ₹ 1,000 on Salesmen's salary and ₹ 1,600 on godown rent. Mohua sold 50 units for cash at ₹ 320 per unit and 20 units on credit at ₹ 350 per unit. She retained her commission @ 6 per cent (including 1 per cent for the del credere arrangements) and remitted the balance due. Mohua informed that 10 units were damaged on account of bad packing and that she would be able to sell them only for ₹ 160 per unit. A debtor for ₹ 2,000 to whom the goods were sold by Mohua became insolvent and only 50 paise in a rupee was recovered.

Show necessary ledger accounts in the books of Mohua.

**Solution** **In the Books of Mohua**

**Dr.** **Somali Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Commission Received A/c : | | | By Bank A/c (cash sales) | 16,000 |
| | Ordinary commission | 1,150 | | By Consignment Debtors A/c | 7,000 |
| | Del credere commission | 230 | | | |
| | To Bank A/c (Expenses) | 2,600 | | | |
| | To Bank (Final remittance) | 19,020 | | | |
| | | 23,000 | | | 23,000 |

**Dr.** **Consignment Debtors Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Somali A/c | 7,000 | | By Bank A/c | 6,000 |
| | | | | By Discount Received A/c (Bad Debts) | 1,000 |
| | | 7,000 | | | 7,000 |

**Dr.** **Commission Received Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment Debtors A/c (Bad Debts) | 1,000 | | By Somali A/c | 1,380 |
| | To Profit and Loss A/c | 380 | | | |
| | | 1,380 | | | 1,380 |

### Treatment of Discount on Bills in Consignment Account

A consignor may draw a bill on the consignee as an advance on the goods sent to the consignee. After acceptance, the consignor may discount the bill with his banker. ***The discounting charges, however, should not be charged to the Consignment Account*** because it is purely a financial expense. This discounting charge is transferred to the General Profit and Loss Account of the consignor.

## Advance Made by the Consignee

An advance is a payment on account. When the consignee makes an advance to the consignor, the advance is adjusted against the amount due from the consignee. The problem of adjusting the advance arises when only a part of the goods are sold. The portion of the advance to be adjusted against the amount due depends on the *nature of the advance* made by the consignee. The consignee may make an advance which is to be *adjusted against the future payment* or the advance may be made by the consignee *as a security of the goods* received on behalf of the consignor. Accounting entries are made according to situations.

### When an Advance is *Not Given* as a Security

**In the books of the Consignor**

*(i) For advance received from the Consignee*

Cash / Bank / Bills Receivable Account Dr.
To Advance Against Consignment Account

*(ii) For adjustment at the end of the period*

Advance Against Consignment Account Dr. [Full amount]
To Consignee Account

**In the books of the Consignee**

*(i) For advance given to Consignor*

Advance Against Consignment Account Dr.
To Cash / Bank / Bills Receivable Account

*(ii) For adjustment at the end of the period*

Consignor Account Dr. [Full amount]
To Advance Against Consignment Account

***It should be noted that when an advance is not given as a security, the entire amount of advance is to be adjusted against the amount due—even when a part of the goods are sold.***

### *Illustration 8*

Arun of Calcutta sent goods costing ₹ 75,000 to Barun of Bombay on consignment basis. Arun paid ₹ 3,000 on various accounts for sending the goods. Barun paid ₹ 1,800 as railway charges and ₹ 750 as godown rent. The consignee sent a bank draft for ₹ 45,000 as advance against the consignment. 4/5ths of the goods were sold at ₹ 87,000. A customer who purchased goods for ₹ 500 failed to pay for which the debt proved bad. The Account Sales sent by the consignee showed that he charged 10 per cent as ordinary commission and 2.5 per cent as Del Credere commission.

**You are required to give in the books of Arun :**

(1) Consignment Account; (2) Barun Personal Account; (3) Advance against Consignment Account.

**Solution** **In the Books of Arun**

**Dr.** **Consignment to Bombay Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| | To Goods sent on Consignment A/c | | 75,000 | | By Barun A/c (sale proceeds) | 87,000 |
| | To Bank A/c — expenses | | 3,000 | | By Stock on Consignment A/c | |
| | To Barun A/c — expenses | | | | 1/5th of (₹ 75,000 + 3,000 + 1,800) | 15,960 |
| | Railway charges | 1,800 | | | | |
| | Godown rent | 750 | 2,550 | | | |
| | To Barun A/c — commission | | | | | |
| | Ordinary @ 10% | 8,700 | | | | |
| | Del Credere @ 2-$^{1}/_{2}$% | 2,175 | 10,875 | | | |
| | To Profit and Loss on Consignment A/c | | 11,535 | | | |
| | | | 1,02,960 | | | 1,02,960 |

**Dr.** **Barun Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Bombay A/c | 87,000 | | By Consignment to Bombay A/c (expenses) | 2,550 |
| | | | | By Consignment to Bombay A/c (comm.) | 10,875 |
| | | | | By Advance Against Consignment A/c | 45,000 |
| | | | | By Balance c/d (amount due) | 28,575 |
| | | 87,000 | | | 87,000 |

**Dr.** **Advance Against Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Barun A/c | 45,000 | | By Bank A/c | 45,000 |

### When an Advance is *Given* as a Security of the Goods

**In the books of the Consignor**

*(i) For advance received from the Consignee*

Cash / Bank / Bills Receivable Account Dr.
To Advance Against Consignment Account

*(ii) For adjustment at the end of the period*

Advance Against Consignment Account Dr. [Proportionate amount]
To Consignee Account

**In the books of the Consignee**

*(i) For advance given to Consignor*

Advance Against Consignment Account Dr.
To Cash / Bank / Bills Receivable Account

*(ii) For adjustment at the end of the period*

Consignor Account Dr. [Proportionate amount]
To Advance Against Consignment Account

***It should be noted that in this case a proportionate adjustment of advance is to be made against the amount due. For example, if the consignee receives 100 units of goods and makes an advance of ₹ 10,000. At the year end, if 80 units are sold, only ₹ 8,000 of the advance can be adjusted against the amount due.***

### *Illustration 9*

Gavaskar of Bombay sent 100 TV sets to Kapil of Chandigarh on consignment basis. The cost price of each set is ₹ 5,000. Gavaskar paid ₹ 100 for cartage, ₹ 1,500 for railway freight and ₹ 400 for insurance premium.

He drew a bill, payable after two months for ₹ 50,000, which was accepted by Kapil, by way of security against the consignment. He then discounted the bill for ₹ 49,900.

Kapil paid ₹ 600 as godown rent and ₹ 400 as sundry expenses. He sold 90 sets @ ₹ 5,400 per set. But he could not realize the sale proceeds of 5 sets from the customers. He was entitled to receive 4% ordinary commission and 1% del credere commission. The net amount due from Kapil was received in time.

Prepare the Consignment Account, Kapil Account and Advance Against Consignment Account in the books of Gavaskar.

**Solution** **In the books of Gavaskar**

**Dr.** **Consignment to Kapil Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 5,00,000 | | By Kapil A/c | 4,86,000 |
| | To Cash A/c | | | By Stock on Consignment A/c (Note 1) | 50,200 |
| | Cartage | 100 | | | |
| | Railway Freight | 1,500 | | | |
| | Insurance | 400 | | | |
| | To Kapil A/c | | | | |
| | Godown Rent | 600 | | | |
| | Sundry Expenses | 400 | | | |
| | Commission | 24,300 | | | |
| | To Profit & Loss on Consignment A/c | 8,900 | | | |
| | | 5,36,200 | | | 5,36,200 |

**Dr.** **Kapil Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Kapil A/c | 4,86,000 | | By Consignment to Kapil A/c | 25,300 |
| | | | | By Advance against Consignment A/c | 45,000 |
| | | | | By Bank A/c | 4,15,700 |
| | | 4,86,000 | | | 4,86,000 |

**Dr.** **Advance against Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Kapil A/c (9/10) | 45,000 | | By Bills Receivable A/c | 50,000 |
| | To Balance c/d | 5,000 | | | |
| | | 50,000 | | | 50,000 |

**Working Note : (1) Valuation of Closing Stock**

| | | |
|---|---|---|
| **Cost price : 100 TV sets @ ₹ 5,000 each** | 5,00,000 | |
| Add: non recurring expenses (₹ 100 + ₹ 1,500 + ₹ 400) | 2,000 | Value of Unsold TV = $\frac{5,02,000}{100}$ x 10 = ₹ 50,200 |
| **Value of goods sent** | 5,02,000 | |

**Tutorial Notes:**

**(1)** Sundry expenses should not be considered for valuation of closing stock.

**(2)** Discount on bill should not be charged to Consignment Account because it is purely a financial expense.

**(3)** When del credere commission is given to the consignee, the consignor has nothing to do with the bad debts.

## Loss of Goods on Consignment

It is possible that a portion of the consignment stock may be stolen or otherwise lost (may be in transit or in the consignee's godown). The consignor will have to bear the loss, but not the consignee. There may also be some inevitable normal losses. In accounting for consignment, losses are classified as *normal and abnormal*. Therefore, in the books of the consignor, accounting treatment for normal and abnormal losses are different.

### *Accounting for normal losses*

Normal losses are inevitable or unavoidable. These may arise due to natural causes like breaking in bulk, evaporation, leakage, drying, etc. No effort can prevent these losses.

Normal loss is treated by ignoring the loss. It means that the value of remaining stock absorbs this loss. Therefore, when there is some normal loss, the value of the remaining goods are artificially inflated to cover the normal loss. For example, a consignment of 100 units costing @ ₹ 0.95 is sent. Due to normal loss, the consignee receives 95 units. The value of stock will become ₹ 1 per unit (instead of the actual price of ₹. 0.95 per unit).

Therefore, when there is no stock remaining unsold, there will be no treatment for normal loss. But where there is some stock remaining unsold, the value of the stock on consignment will be ascertained by applying the following formula:

$$\frac{Value\ of\ the\ goods\ received\ by\ the\ consignee}{Net\ quantity\ received\ (after\ normal\ loss)\ by\ the\ consignee\ (in\ units)} \times Unsold\ goods\ (in\ units)$$

### *Illustration 10*

A informed you of the following particulars of his transactions relating to goods consigned to B for the year ended 31.12.2016. Goods sent (10,000 kgs)—₹ 1,00,000; A's expenses—₹ 10,000; B's expenses—freight and insurance—₹ 2,000; selling—₹ 5,000; Sold (8,000 kgs)—₹ 1,12,000; Loss due to natural wastage 100 kgs; Commission @ 5% on gross sales.You are asked to prepare the Consignment Account only with the detailed calculation of unsold stock in the books of A.

**Solution** **In the Books of A**

**Dr.** **Consignment to B Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| 2016 | To Goods sent on Consignment A/c | | 1,00,000 | 2016 | By B A/c - sale proceeds | 1,12,000 |
| ? | To Bank A/c - expenses | | 10,000 | Dec. 31 | By Stock on Consignment A/c (Note 1) | 21,495 |
| Dec. 31 | To B A/c - expenses | | | | | |
| | Freight and Insurance | 2,000 | | | | |
| | Selling | 5,000 | 7,000 | | | |
| " | To B A/c - commission @ 5% on ₹ 1,12,000 | | 5,600 | | | |
| " | To Profit and Loss on Consignment A/c | | 10,895 | | | |
| | | | 1,33,495 | | | 1,33,495 |

**Working Note: (1) Ascertainment of the value of Stock:** We know, when there is a normal loss, it is treated by ignoring the loss, i.e. the value of the remaining goods are artificially inflated. It means remaining goods absorb the normal loss. Therefore, in such a case, closing stock is to be ascertained by applying the following formula :

$$\frac{\text{Value of Goods Sent}}{\text{Quantity received by the Consignee after normal loss}} \times \text{Stock in hand}$$

$$= \frac{1,00,000 + 10,000 + 2,000}{10,000 - 100} \times 1,900 = ₹\ 21,495\ (\text{approx.})$$

### *Accounting for abnormal losses*

Abnormal losses in consignment may arise owing to reasons such as, theft, fire and the like. Again, these may occur either in transit or at the consignee's place. Normal loss is unavoidable but abnormal loss can be avoided. To ascertain the true profit on consignment, abnormal losses are eliminated from the Consignment Account. Therefore, abnormal losses should be charged to the General Profit And Loss Account and Consignment Account should be given due credit for the value of goods lost abnormally. Abnormal losses can be dealt with in two different ways as under:

### *Method I*

*(a) When the goods are not insured:*

Profit and Loss Account Dr.
To Consignment Account

*(b) When the goods are fully insured:*

Insurance Claim Account Dr.
To Consignment Account

*(c) When the value of goods lost is more than the amount admitted by the insurance company:*

Insurance Claim Account Dr. (claim admitted)
Profit and Loss Account Dr. (claim not admitted)
To Consignment Account (value of goods lost)

### *Method II*

Under this method, the whole amount of abnormal loss is transferred to a special account called Abnormal Loss Account by passing the following entry:

Abnormal Loss Account Dr.
To Consignment Account

Now, for closing the Abnormal Loss Account, the following entries are made according to the situation:

*(a) When the goods are not insured:*

Profit and Loss Account Dr.
To Abnormal Loss Account

*(b) When the goods are fully insured:*

Insurance Claim Account Dr.
To Abnormal Loss Account

*(c) When the value of goods lost is more than the amount admitted by the insurance company:*

Insurance Claim Account Dr.
Profit and Loss Account Dr.
To Abnormal Loss Account

The following entry is to be passed under both methods, when the actual claim is received from the insurance company:

Bank Account Dr.
To Insurance Claim Account

**Valuation of Abnormal Loss**

| Particulars | ₹. | ₹. | |
|---|---|---|---|
| **Cost price of goods sent** | | ***** | Value of abnormal loss = $\frac{Total\ Cost}{Total\ Quantity}$ x *Quantity Lost* |
| Add : Non-recurring expenses upto the point of loss (consignor's + consignee's) | | ***** | |
| **Total Cost just before loss** | | ***** | |

### *Illustration 11*

Romesh of Calcutta consigned 100 packets of medicine, each costing ₹ 500, to his agent Md. Arif of Ahmedabad. He paid ₹ 1,000 towards freight and insurance. 10 packets were destroyed in transit. The consignee took delivery of the remaining packets and spent ₹ 500 as godown rent, ₹ 2,000 as clearing charges and ₹ 500 as selling expenses. The consignee sold 80 packets @ ₹ 600 each.

You are required to calculate the cost of damage and cost of goods in hand at the end.

**Solution**

| Valuation of goods lost in transit | ₹ | Valuation of goods in hand at the end | ₹ |
|---|---|---|---|
| Cost of 100 packets @ ₹ 500 each | 50,000 | Cost of 100 packets just before lost in transit | 51,000 |
| Add: Non-recurring expenses up to accident | 1,000 | Less: Value of 10 packets lost in transit | 5,100 |
| Cost of 100 packets just before loss in transit | 51,000 | Cost of 90 packets after loss in transit | 45,900 |
| Therefore, Value of 10 packets = ₹ 51,000 / 100 x 10 = | 5,100 | Add: Non-recurring exp. after accident (cledaring charges) | 2,000 |
| | | Total cost of 90 packets | 47,900 |
| | | Therefore, Value of 10 packets = ₹ 47,900 / 90 x 10 = | 5,322 |

### *Illustration 12*

From the following information calculate the value of goods lost-in-transit and the value of unsold stock on consignment:

On 1st January, 2016, P Ltd of Kolkata consigned 10,000 kg of an item costing ₹ 80 per kg to R Ltd of Mumbai and paid ₹ 80,000 as freight and insurance. 200 kg of the item were lost-in-transit. R Ltd took delivery of the remaining consignment and paid unloading charges ₹ 19,000. Godown rent ₹ 2,500, Printing and Advertisement ₹ 20,000. 200 kg were lost due to leakage in the godown of R Ltd which is to be considered as normal loss. R Ltd has sold 8,000 kg of the item.

**Solution** **Estimation of Abnormal Loss and Unsold Stock**

| Particulars | Kgs | ₹. |
|---|---|---|
| Original cost of goods sent | 10,000 | 8,00,000 |
| Add: Expenses of Consignor, Freight and Insurance | | 80,000 |
| | 10,000 | 8,80,000 |
| Less: Abnormal Loss in transit (₹ 8,80,000 ÷ 10,000) x 200 | 200 | 17,600 |
| | 9,800 | 8,62,400 |
| Add: Non-recurring expenses of Consignee — unloading charges | | 19,000 |
| | 9,800 | 8,81,400 |
| Less: Normal Loss | 200 | — |
| Value of Goods after Normal Loss | 9,600 | 8,81,400 |
| Less: Sold | 8,000 | |
| | 1,600 | |

Value of Closing Stock (₹ 8,81,400 ÷ 9,600) × 1,600 = ₹ **1,46,900**.

### *Illustration 13*

1,000 kg. of goods were consigned @ ₹ 32 per kg. Consignor paid freight and carriage ₹ 4,140. Consignee sold 650 kg. @ ₹ 45 per kg and incurred ₹ 2,500 as unloading expenses, ₹ 2,400 as godown rent and ₹ 1,200 as selling expenses. Normal loss due to leakage was 80 kg. Show how the loss and unsold stock will be treated in the books of the Consignor.

**Solution**

| **Computation of Unsold Stock** | Kgs. | Amount (₹) |
|---|---|---|
| Sent | 1,000 | 32,000 |
| Add : Consignor Expenses (Freight and Carriage) | | 4,140 |
| | | 36,140 |
| Add: Non-recurring Expenses of Consignee | | 2,500 |
| | 1,000 | 38,640 |
| Less: Sold | (650) | |
| Less: Normal Loss | (80) | |
| **Unsold Stock** | 270 | |

$\therefore$ Value of Consignment Stock $= \frac{38,640}{1,000 - 80} \times 270 =$ ₹ **11,340**.

Cost of normal loss due to leakage will be absorbed by the remaining goods, i.e., 920 kg.The cost per kg. will be increased for the normal loss. Value of unsold stock will be credited to Consignment Account

### *Illustration 14*

100 cycles, costing ₹ 150 each were consigned to the agent at Jaipur. Expenses incurred on sending them were ₹ 1,000. On the way, 5 cycles were damaged due to bad handling and insurance claim of ₹ 700 was accepted. Consignee took delivery of the rest and incurred direct expenses of ₹ 285 and indirect expenses of ₹ 150. He sold 80 cycles at ₹ 200 per cycle. Prepare Consignment Account when consignee gets 5% commission on gross sales. also show how abnormal loss and stock at the end is to be calculated.

**Solution** **In the Books of ...**

**Dr.** **Consignment to Jaipur Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 15,000 | | By Abnormal Loss A/c (Note 1) | 800 |
| | To Cash A/c (Expenses) | 1,000 | | By Consignee A/c (Sales) | 16,000 |
| | To Consignee A/c : | | | By Stock on Consignment A/c (Note 2) | 2,445 |
| | Direct expenses | 285 | | | |
| | Indirect expenses | 150 | | | |
| | To Consignee A/c (Commission @ 5%) | 800 | | | |
| | To Profit or Loss on Consignment A/c | 2,010 | | | |
| | | 19,245 | | | 19,245 |

**Working Notes :**

| (1) Valuation of goods lost in transit | ₹ | (2) Valuation of goods in hand at the end | ₹ |
|---|---|---|---|
| Cost of 100 cycles @ ₹ 150 each | 15,000 | Cost of 100 cycles just before loss in transit | 16,000 |
| Add: Non-recurring expenses | 1,000 | Less: Value of 5 cycles lost in transit | 800 |
| Cost of 100 cycles just before lost in transit | 16,000 | Cost of 95 cycles | 15,200 |
| Therefore, value of 5 cycles = ₹ 16,000 / 100 x 5 | 800 | Add: Direct expenses | 285 |
| | | Total cost of 95 cycles | 15,485 |
| | | Value of 15 cycles = ₹ 15,485 / 95 x 15 | 2,445 |

### *Illustration 15*

Arup consigned 2,000 kg of fine Basmati rice @ ₹ 10 per kg to Sintu. He paid freight ₹ 3,000, dock charges ₹ 2,500 and insurance ₹ 1,500. 800 kg. rice was destroyed in transit due to an accident. Claim admitted by the insurance company was ₹ 4,500. Sintu sold in cash and on credit 1,000 kg. rice @ ₹ 15 per kg. He incurred the following expenses :

Clearing charges ₹ 2,000; Carrying charges ₹ 1,000; Godown rent ₹ 1,200 and Selling expenses ₹ 1,500.

Sintu received commission @ 10% on sales. ₹ 2,000 could not be realised from a debtor.

Show the Consignment Account and determine profit or loss from consignment.

**Solution** **In the Books of Arup**

**Dr.** **Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 20,000 | | By Accidental Loss A/c (Note 1) | 10,800 |
| | To Bank A/c (Expenses) : | | | By Sintu A/c (Sales) | 15,000 |
| | Freight | 3,000 | | By Stock on Consignment A/c (Note 2) | 3,200 |
| | Dock charges | 2,500 | | By Profit and Loss on Consignment A/c | 7,200 |
| | Insurance | 1,500 | | | |
| | To Sintu A/c : | | | | |
| | Commission @ 10% | 1,500 | | | |
| | Bad Debts | 2,000 | | | |
| | Clearing Charges | 2,000 | | | |
| | Carrying Charges | 1,000 | | | |
| | Godown Rent | 1,200 | | | |
| | Selling Expenses | 1,500 | | | |
| | | 36,200 | | | 36,200 |

**Working Notes :**

| (1) Valuation of goods lost in transit | ₹ | (2) Valuation of goods in hand at the end | ₹ |
|---|---|---|---|
| Cost of 2,000 kg rice @ ₹ 10 | 20,000 | Cost of 2,000 kg rice just before loss in transit | 27,000 |
| Add: Non-recurring expenses | 7,000 | Less: Value of 800 kg lost in transit | 10,800 |
| Cost of 2,000 kg rice just before loss in transit | 27,000 | Cost of 1,200 kg after loss in transit | 16,200 |
| Value of 800 kg = ₹ 27,000 / 2,000 x 800 | 10,800 | Add: Non-recurring expenses : | |
| | | Clearing charges | 2,000 |
| | | Carrying charges | 1,000 |
| | | Total cost of 1,200 kg | 19,200 |
| | | Value of 200 kg = ₹ 19,200 / 1,200 x 200 | 3,200 |

## Normal and Abnormal Losses Simultaneously

### *Illustration 16*

(a) A consigned to B 5,000 kg. of tea costing ₹ 40 per kg. A incurred ₹ 3,000 on freight and ₹ 2,000 on insurance. 500 kg of tea were lost in transit. The insurance company admitted the claim for ₹ 15,000. After receiving the goods, B spent ₹ 1,000 on carriage, ₹ 500 on selling and ₹ 500 on godown rent, B was allowed a commission of 5% on sales. 3,000 kg of tea were sold at ₹ 64 per kg. 25 kg of tea were lost due to breakage of a chest which was considered to be normal. Prepare necessary Ledger Accounts in the books of A and B.

(b) Will your answer be different, if in the above example, abnormal loss of 500 kg took place in the consignee's godown by theft—other things remaining the same?

**Solution (a)** **In the Books of A**

**Dr.** **Consignment to B Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| | To Goods sent on Consignment A/c | | 2,00,000 | | By Abnormal Loss A/c (Note 1) | 20,500 |
| | To Bank A/c - expenses: | | | | By B A/c (sale proceeds) (3000 x ₹ 64) | 1,92,000 |
| | Freight | 3,000 | | | By Stock on Consignment A/c (Note 2) | 61,142 |
| | Insurance | 2,000 | 5,000 | | | |

| | | | | | |
|---|---|---|---|---|---|
| | To B A/c (expenses) | | | | |
| | Carriage | 1,000 | | | |
| | Selling | 500 | | | |
| | Godown rent | 500 | 2,000 | | |
| | To B A/c - commission (5% on ₹ 1,92,000) | | 9,600 | | |
| | To Profit and Loss on Consignment A/c | | 57,042 | | |
| | | | 2,73,642 | | 2,73,642 |

**Dr.** **B Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to B A/c | 1,92,000 | | By Consignment to B A/c - expenses | 2,000 |
| | | | | By Consignment to B A/c - commission | 9,600 |
| | | | | By Balance c/d (amount due) | 1,80,400 |
| | | 1,92,000 | | | 1,92,000 |

**Dr.** **Abnormal Loss Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to B A/c | 20,500 | | By Insurance Company A/c (claim admitted) | 15,000 |
| | | | | By Profit and Loss A/c | 5,500 |
| | | 20,500 | | | 20,500 |

**Dr.** **Goods sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Trading A/c - transfer | 2,00,000 | | By Consignment to B A/c | 2,00,000 |

**In the Books of B**

**Dr.** **A Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Bank A/c (expenses) | | | By Bank A/c (sale proceeds) | 1,92,000 |
| | Cartage | 1,000 | | | |
| | Selling | 500 | | | |
| | Godown rent | 500 | | | |
| | To Commission A/c | 9,600 | | | |
| | To Balance c/d (balance due) | 1,80,400 | | | |
| | | 1,92,000 | | | 1,92,000 |

**Working Notes:**

**1. Calculation of Abnormal Loss**

| | ₹ |
|---|---|
| Cost of 5,000 kgs @ ₹ 40 per kg. | 2,00,000 |
| Add: Expenses prior to the loss (₹ 3,000 + 2,000) | 5,000 |
| Value of 5,000 kgs | 2,05,000 |

Therefore, value of 500 kg. is ₹ 20,500 (₹ 2,05,000 x 500 ÷ 5,000).

**2. Calculation of Stock on Consignment**

| | ₹ |
|---|---|
| Value of 5,000 kgs (Note 1) | 2,05,000 |
| Less: Abnormal loss of 500 kgs (Note 1) | 20,500 |
| Value of the goods received by the consignee | 1,84,500 |
| Add: Non-recurring expenses of the consignee (Cartage) | 1,000 |
| Total value of the goods sent to the consignee | 1,85,500 |

The consignee received 4,475 kgs (5,000 kgs – 500 kgs abnormal loss – 25 kgs normal loss). Out of that 3,000 kgs sold by him. Therefore, stock in hand is 1,475 kgs (4,475 – 3,000).
Thus, ₹ 1,85,500 / 4,475 x 1,475 = ₹ **61,142**.

## Solution (b)

When the abnormal loss of 500 kgs takes place in the consignee's godown (other things remaining the same) the value of abnormal loss and stock on consignment will be different — which are calculated as under:

| **Ascertainment of Abnormal Loss and Unsold Stock** | ₹ |
|---|---|
| Value of the goods received by the consignee | 2,05,000 |
| Add: Proportionate expenses of the consignee (cartage) | 1,000 |
| | 2,06,000 |

The consignee received 4,975 units (5,000 kgs – 25 kgs normal loss)

Therefore, Value of Abnormal Loss = $\frac{2,06,000}{4,975} \times 500 = ₹ 20,704$ (approx.)

Value of Unsold Stock = $\frac{2,06,000}{4,975} \times 1,475 = ₹ 61,075$ (approx.). Profit on consignment will be ₹ **57,179.**

### *Illustration 17*

On 1st January, 2017 ITC Ltd. of Calcutta consigned 10,000 kg of Sunflower Oil, costing ₹ 40 per kg to Dinesh & Co. of Delhi. ITC Ltd. paid ₹ 40,000 as freight and insurance. 200 kg of oil were lost on 15.1.2017 in transit. The insurance claim was settled for ₹ 7,500 and was paid to the consignor directly. Dinesh & Co. took delivery of the consignment on 29th January 2017, and accepted a bill drawn upon them by ITC Ltd. for ₹ 2,00,000 for 2 months. On 31st March, 2017 an Account Sales was received from Dinesh & Co. containing the following information:

(i) 8,000 kg were sold @ ₹ 55 per kg.; (ii) Unloading charges ₹ 9,500; (iii) Godown rent ₹ 1,250; (iv) Printing & Advertisement ₹ 10,000; and (v) 200 kg were lost due to leakage which is considered as normal. Dinesh & Co. is entitled to a commission @ 5% on sales. They paid the amount due in respect of the consignment on 31st March itself.

You are required to show: (i) Consignment to Delhi Account; (ii) Dinesh & Co. Account; and (iii) the Loss in Transit Account in the Books of ITC Ltd.

**Solution** **In the books of ITC Ltd**

**Dr.** **Consignment to Delhi Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2017 | To Goods Sent on Consignment A/c | 4,00,000 | 15.1.2017 | By Loss in transit A/c (Note 1) | 8,800 |
| | To Cash A/c (Freight & Insurance) | 40,000 | 31.3.2017 | By Dinesh & Co A/c (Sales) | 4,40,000 |
| 31.3.2017 | To Dinesh & Co A/c | | 31.3.2017 | By Stock on Consignment A/c (Note 2) | 73,450 |
| | Unloading | 9,500 | | | |
| | Godown Rent | 1,250 | | | |
| | Printing & Advertisement | 10,000 | | | |
| 31.3.2017 | To Dinesh & Co A/c (commission @ 5%) | 22,000 | | | |
| 31.3.2017 | To Profit & Loss on Consignment A/c | 39,500 | | | |
| | | 5,22,250 | | | 5,22,250 |

**Dr.** **Dinesh & Co. Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.3.2017 | To Consignment to Delhi A/c | 4,40,000 | 29.1.2017 | By Bills Receivable A/c | 2,00,000 |
| | | | 31.3.2017 | By Consignment to Delhi A/c | 20,750 |
| | | | 31.3.2017 | By Consignment to Delhi A/c | 22,000 |
| | | | 31.3.2017 | By Bank A/c | 1,97,250 |
| | | 4,40,000 | | | 4,40,000 |

**Dr.** **Loss in Transit Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 15.1.2017 | To Consignment to Delhi A/c | 8,800 | ? | By Bank A/c (claim received) | 7,500 |
| | | | 31.3.2017 | By Profit & Loss A/c | 1,300 |
| | | 8,800 | | | 8,800 |

**Working Notes :**

| (1) Valuation of goods lost in transit | ₹ |
|---|---|
| Cost of 10,000 kg oil @ ₹ 40 per kg | 4,00,000 |
| Add: Freight & Insurance upto accident | 40,000 |
| Total cost of 10,000 kg oil | 4,40,000 |
| Value of 200 kg = ₹ (4,40,000 / 10,000) x 200 | 8,800 |

| (2) Valuation of goods in hand at the end | ₹ |
|---|---|
| Total cost of 10,000 kg oil | 4,40,000 |
| Less: Cost of goods destroyed | 8,800 |
| Cost of 9,800 kg (10,000 — 200) | 4,31,200 |
| Add: Unloading charges | 9,500 |
| Total cost of 9,800 kg | 4,40,700 |
| Less: Normal Loss 200 kg | — |
| Total cost of 9,600 kg | 4,40,700 |
| Therefore, Value of 1,600 Kg. (4,40,700 / 9,600) x 1,600 = ₹ 73,450. | |

# General Illustrations

### *Illustration 18*

Mr Saha of Kolkata sent 2,500 cases of goods on concignment to Mr Kole of Mumbai, each case costing ₹ 150. The following expenses were borne by Mr Saha for sending the goods :

Freight ₹ 6,000; Carriage ₹ 3,000 and Loading charges ₹ 2,000.

Mr Kole sold 1,750 cases at ₹ 210 per case and made the following expenses in this connection :

Packaging and selling expenses ₹ 1,200; Storage expenses ₹ 3,400 and clearing charges ₹ 1,700. In the transit 125 cases have been lost. Mr Kole is entitled to a commission of 10% on gross sales. Show Consignment Account in the books of Mr Saha.

**Solution** **In the Books of Mr Saha**

**Dr.** **Consignment to Mumbai Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 3,75,000 | | By Kole A/c (Sales) | 3,67,500 |
| | To Cash A/c : | | | By Abnormal Loss A/c (Note 1) | 19,300 |
| | Freight | 6,000 | | By Stock on Consignment A/c (Note 2) | 96,947 |
| | Carriage | 3,000 | | | |
| | Loading Charges | 2,000 | | | |
| | To Kole A/c : | | | | |
| | Commission @ 10% | 36,750 | | | |
| | Packing and Selling Expenses | 1,200 | | | |
| | Storage Expenses | 3,400 | | | |
| | Clearing Charges | 1,700 | | | |
| | To Profit and Loss on Consignment A/c | 54,697 | | | |
| | | 4,83,747 | | | 4,83,747 |

**Working Notes :**

| (1) Valuation of Abnormal Loss | ₹ | (2) Valuation of Closing Stock | ₹ |
|---|---|---|---|
| Cost of 2,500 cases @ ₹ 150 per case | 3,75,000 | Cost of 2,500 cases @ ₹ 150 per case | 3,86,000 |
| Add: Non recurring expenses : | | Less: Value of 125 cases lost-in-transit | 19,300 |
| Freight | 6,000 | **Cost of 2,375 cases** | 3,66,700 |
| Carriage | 3,000 | Add: Clearing charges | 1,700 |
| Loading Charges | 2,000 | **Total Cost of 2,375 cases** | 3,68,400 |
| **Cost of 2,500 cases just before lost-in-transit** | 3,86,000 | Value of 625 unsold cases = ₹ 3,68,400 / 2,375 x 625 | 96,947 |
| Therefore, value of 150 cases = ₹ 3,86,000 / 2,500 x 125 | 19,300 | | |

### *Illustration 19*

A & Co. consigned 100 bicycles costing ₹ 1,500 each to its agent B & Co. of Jaipur. A & Co. incurred the following expenses :

| | ₹ |
|---|---|
| Freight | 8,000 |
| Insurance | 6,000 |
| Coolie & Cartage | 4,000 |

On the way 5 bicycles were damaged due to bad handling and insurance company admitted a claim of ₹ 7,000.

Consignee took delivery of the rest and incurred the following expenses :

| | ₹ |
|---|---|
| Clearing charges | 1,200 |
| Carrying charges | 800 |
| Godown rent | 1,400 |
| Selling expenses | 1,600 |

The consignee sold 80 bicycles at ₹ 2,100 each. He is entitled to a commission of 5% on Sales.

Prepare Consignment Account in the books of Consignor.

**Solution** **In the books of A & Co.**

**Dr.** **Consignment to Jaipur Account** **Cr.**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Goods Sent on Consignment | | 1,50,000 | By Abnormal Loss A/c (Note 1) | 8,400 |
| To Cash A/c : | | | By B & Co. A/c (Sold 80 bicycles @ ₹ 1,200) | 1,68,000 |
| Freight | 8,000 | | By Consignment Stock A/c (Note 1) | 25,516 |
| Insurance | 6,000 | | | |
| Coolie | 4,000 | 18,000 | | |
| To B & Co. A/c : | | | | |
| Clearing | 1,200 | | | |
| Carrying | 800 | | | |
| Godown Rent | 1,400 | | | |
| Selling Expenses | 1,600 | | | |
| Commission @ 5% on ₹ 1,68,000 | 8,400 | 13,400 | | |
| To Profit and Loss on Consignment A/c | | 20,516 | | |
| | | 2,01,916 | | 2,01,916 |

**Working Notes :** **(1) Calculation of Value of Unsold Stock**

| Partners | Cycles (Nos.) | Amount (₹) |
|---|---|---|
| Goods Sent on Consignment | 100 | 1,50,000 |
| Add: Consignor's Expenses | | 18,000 |
| | 100 | 1,68,000 |
| Less: Damaged in transit (₹ 1,68,000 ÷ 100 × 5) | 5 | 8,400 |
| | 95 | 1,59,600 |
| Add: Non-recurring Expenses of Consignee | | 2,000 |
| | 95 | 1,61,600 |
| Less: Sold | 80 | |
| **Unsold Stock** | 15 | |

Value of Unsold Stock = $\frac{1,61,600}{95} \times 15$ = ₹ **25,516**.

### *Illustration 20*

Trump consigned 1,000 kg of rice @ ₹ 20 per kg to Putin. He paid freight ₹ 2,500; dock charges ₹ 1,500 and insurance ₹ 1,000. 200 kg of rice was destroyed in transit due to an accident.

An insurance claim of ₹ 3,500 was admitted by the insurance company. Putin sold 720 kg rice @ ₹ 30 per kg and incurred Clearing charges ₹ 1,800; Carrying charges ₹ 1,200; Godown rent ₹ 1,500 and Selling expenses ₹ 1,000.

Pintu is to receive an ordinary commission @ 8% on sales. He could not realise ₹ 2,000 from debtors and it was proved bad. Putin remits ₹ 10,000 by a bank draft to Tumpa.

Show the Consignment Account in the books of Consignor.

**Solution** **In the books of Trump (Consignor)**

**Dr.** **Consignment Account** **Cr.**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Goods Sent on Consignment A/c | | 20,000 | By Abnormal Loss A/c (Note 1) | 5,000 |
| To Cash A/c | | | By Consignment Debtors A/c (720 kg rice @ ₹ 30 per kg) | 21,600 |
| Freight | 2,500 | | By Consignment Stock A/c (Note 1) | 2,300 |
| Dock Charges | 1,500 | | By Consignment Profit and Loss A/c (Loss on Consignment) | 5,328 |
| Insurance | 1,000 | 5,000 | | |
| To Putin A/c : | | | | |
| Clearing Charges | 1,800 | | | |
| Carrying Charges | 1,200 | | | |
| Godown Rent | 1,500 | | | |
| Selling Expenses | 1,000 | 5,500 | | |
| To Putin A/c : | | | | |
| Ordinary Commission @ 8% on Sales | | 1,728 | | |
| To Consignment Debtors A/c (Bad Debts) | | 2,000 | | |
| | | 34,228 | | 34,228 |

**Working Note : (1) Calculation of Abnormal Loss and Unsold Stock**

| Particulars | Kg | ₹ |
|---|---|---|
| Original Cost of Goods Sent | 1,000 | 20,000 |
| Add: Expenses of Consignor | | 5,000 |
| | 1,000 | 25,000 |
| Less: Abnormal Loss in Transit (25,000 / 1,000) x 200 | 200 | 5,000 |
| | 800 | 20,000 |
| Add: Non-recurring Expense of Consignee (1,800 + 1,200) | | 3,000 |
| | 800 | 23,000 |
| Less: Sold (in kg) | 720 | |
| Unsold (in kg) | 80 | |
| **Unsold Stock** = 23,000 / 800 x 80 = ₹ **2,300** | | |

### *Illustration 21*

Prepare Consignment Account in the books of M/s. Ramkrishna Concern as on 31st December, 2016 from the following particulars given below :

On 1.1.2016, M/s. Ramkrishna Concern of Kolkata consigned 20,000 kg. of a particular variety of goods to M/s. Vasudha of Delhi at a cost of ₹ 120 per kg and paid ₹ 1,20,000 on insurance and freight. 400 kg of the item was lost in transit. M/s. Vasudha took delivery of the remaining goods consigned and paid unloading charges of ₹ 38,000. Printing and Advertisemnt expenses were ₹ 40,000 and godown rent ₹ 5,000. 450 kg. was lost due to leakage in the godown of M/s. Vasudha (which was considered as normal loss). 16,000 kg of the goods consigned was sold by M/s. Vasudha @ ₹ 150 per kg. Commission @ 10% on sales is payable to M/s. Vasudha.

**Solution** **In the books of M/s Ramkrishna Concern**

**Dr.** **Consignment to Delhi Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2016 | To Goods Sent on Consignment A/c | 24,00,000 | 31.12.2016 | By M/s Vasudha A/c (sales) | 24,90,000 |
| | To Bank A/c : | | | By Accidental Loss A/c (Note 1) | 50,400 |
| | Insurance and Freight | 1,20,000 | | By Stock on Consignment A/c (Note 2) | 3,33,910 |
| | To M/s Vasudha A/c : | | | | |
| | Unloading Charges | 38,000 | | | |
| | Printing and Advertisement Expenses | 40,000 | | | |
| | Godown Rent | 5,000 | | | |
| | Commission | 2,49,000 | | | |
| | To Profit and Loss on Consignment A/c | 22,310 | | | |
| | | 28,74,310 | | | 28,74,310 |

**Working Notes :**

| (1) Valuation of Goods Lost-in-Transit | ₹ | (2) Valuation of Closing Stock | ₹ |
|---|---|---|---|
| Cost of 20,000 kg @ ₹ 120 | 24,00,000 | Cost of 20,000 kg | 25,20,000 |
| Add: Freight and Insurance | 1,20,000 | Less: Accidental Loss | 50,400 |
| **Cost of 20,000 kg of goods before lost-in-transit** | 25,20,000 | **Cost of 19,600 kg** | 24,69,600 |
| Value of 400 kg lost-in-transit : | | Add: Unloading charges | 38,000 |
| $\frac{25,20,000}{20,000} \times 400$ | 50,400 | Cost of 19,150 kg (after taking into consideration the normal loss of 450 kg) | 25,07,600 |
| | | Value of Stock in hand = ₹ 25,07,600 / 19,150 x 2,550 | 3,33,310 |

### *Illustration 22*

X, whose accounting year ends on 31st May each year, consigned 100 cases of medicine costing ₹ 3,000 each to Y of Madras on 1.4.2017. he paid ₹ 5,000 towards freight and insurance. 15 cases were damaged in transit and on 30.5.2017, the consignor received ₹ 10,000 on account of the damaged cases from the insurance company. Y took delivery of the goods on 10.4.2017 and immediately accepted a bill drawn on him for ₹ 2,00,000 for 60 days.

On 30.5.2017, the consignee reported that : (i) 75 cases were sold at ₹ 4,500 per case; and (ii) he incurred the following expenses : Godown rent ₹ 4,000; Clearing charges ₹ 8,500; Carriage outwards ₹ 3,000. He is entitled to a commission of 10% on the sale proceeds.

Assuming that Y remits the balance by bank draft on 30.5.2017, show the Ledger Accounts in the books of X and the personal account of X in the books of Y.

**Solution** **In the books of X**

**Dr.** **Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | To Goods Sent on Consignment A/c | 3,00,000 | 2017 ? | By Abnormal Loss A/c (Note 1) | 45,750 |
| April 1 | To Bank A/c (freight and insurance) | 5,000 | May 30 | By Y A/c (Sales) | 3,37,500 |
| May 30 | To Y A/c | | " | By Stock on Consignment A/c (Note 2) | 31,500 |
| | Godown rent | 4,000 | | | |
| | Clearing charges | 8,500 | | | |
| | Carriage outwards | 3,000 | | | |
| | Commission - 10% | 33,750 | | | |
| " | To Profit & Loss on Consignment A/c | 60,500 | | | |
| | | 4,14,750 | | | 4,14,750 |

**Dr.** **Abnormal Loss Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | | | 2017 | | |
| ? | To Consignment A/c | 45,750 | May 5 | By Bank A/c (Insurance claim) | 10,000 |
| | | | May 31 | By Profit & Loss A/c | 35,750 |
| | | 45,750 | | | 45,750 |

**Dr.** **Y Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | | | 2017 | | |
| May 30 | To Consignment A/c | 3,37,500 | Apr. 4 | By Bills Receivable A/c | 2,00,000 |
| | | | May 30 | By Consignment A/c (expenses and comm.) | 49,250 |
| | | | " | By Bank A/c (remittances) | 88,250 |
| | | 3,37,500 | | | 3,37,500 |

**Dr.** **Bills Receivable Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | | | 2017 | | |
| Apr. 4 | To Y A/c | 2,00,000 | June 7 | By Bank Receivable A/c | 2,00,000 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | | | 2017 | | |
| May 30 | To Purchases A/c | 3,00,000 | April 1 | By Consignment A/c | 3,00,000 |

**In the books of Y**

**Dr.** **X Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | | | 2017 | | |
| Apr. 4 | To Bills Payable A/c | 2,00,000 | ? | By Bank A/c | 3,37,500 |
| ? | To Bank A/c (expenses) | 15,500 | | | |
| May 30 | To Commission Received A/c | 33,750 | | | |
| " | To Bank A/c (remittances) | 88,250 | | | |
| | | 3,37,500 | | | 3,37,500 |

**Working Notes :**

| (1) Valuation of Goods Damaged in Transit | ₹ | (2) Valuation of Closing Stock | ₹ |
|---|---|---|---|
| Cost of 100 cases @ ₹ 3,000 | 3,00,000 | Total cost of 100 cases | 3,05,000 |
| Add: Freight & Insurance upto accident | 5,000 | Less: Cost of goods damaged | 45,750 |
| Total cost of 100 cases | 3,05,000 | Cost of 85 cases (100 – 15) | 2,59,250 |
| Value of 15 cases | 45,750 | Add: Clearing charges | 8,500 |
| | | Total Value of 85 cases | 2,67,750 |
| | | Value of 10 cases | 31,500 |

### *Illustration 23*

Ramesh consigned 2,000 metric tonne of chemicals at a cost of ₹ 800 per metric tonne to John. Ramesh paid freight and insurance charges of ₹ 20,000. Of the above, 500 metric tonne of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 metric tonne of chemicals and sold 1,000 metric tonne at an average price of ₹ 1,000 per metric tonne John incurred the following expenses : Godown rent ₹ 5,000; Insurance ₹ 3,000; and Clearing charges ₹ 4,500. Insurance claim received against fire ₹ 4,00,000 after admitting the salvage value of stock destroyed by fire at ₹ 10,000. John was entitled to a commission of 10% on sale proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of the sales proceeds.

Prepare a Consignment Account and John's Account in the books of Ramesh.

**Solution** **In the books of Ramesh**

**Dr.** **Consignment to John Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 16,00,000 | | By Abnormal Loss A/c (Note 1) | 3,95,000 |
| | To Bank A/c (Freight and Insurance) | 20,000 | | By John A/c (Sales) | 10,00,000 |
| | To John A/c (Total Expenses) | 12,500 | | By Stock on Consignment A/c (Note 2) | 4,16,500 |
| | To John A/c (Commission) | 1,00,000 | | | |
| | To Profit & Loss on Consignment A/c | 79,000 | | | |
| | | 18,11,500 | | | 18,11,500 |

**Dr.** **John Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to John A/c | 10,00,000 | | By Consignment to John A/c (Expenses) | 12,500 |
| | | | | By Consignment to John A/c (Commission) | 1,00,000 |
| | | | | By Bank A/c (Final payment) | 8,87,500 |
| | | 10,00,000 | | | 10,00,000 |

**Working Notes :**

| **(1) Valuation of Abnormal Loss** | ₹ | **(2) Value of Closing Stock** | ₹ |
|---|---|---|---|
| Cost of goods sent (2,000 mt.) | 16,00,000 | Total cost of goods sent (2,000 mt.) | 16,20,000 |
| Add: Non-recurring expenses upto the accident | 20,000 | Less: Abnormal Loss | 4,05,000 |
| Total cost of goods sent (2,000 mt.) | 16,20,000 | Value of the goods received by John | 12,15,000 |
| Therefore, value of abnormal loss (₹ 16,20,000 / 2,000 x 500) | 4,05,000 | Add: Non-recurring expenses of John (clearing charges) | 4,500 |
| Less: Salvage Value | 10,000 | Total cost of goods received by John (1,500 mt.) | 12,19,500 |
| Actual value of Abnormal Loss | 3,95,000 | Therefore, value of closing stock (₹ 12,19,500 / 1,500 x 500) | 4,06,500 |
| | | Add: Salvage value of damaged stock | 10,000 |
| | | | 4,16,500 |

### *Illustration 24*

Messrs Goswami Brothers were appointed agents by Sunrise Limited in 2011. You are given the following particulars relating to the year 2016-17 :

(i) Cost of goods despatched by the Company on consignment ₹ 7,50,000.
(ii) Goods fully destroyed in transit (original cost) ₹ 50,000.
(iii) Expenses incurred by the company towards : Freight ₹ 2,500; Insurance ₹ 1,500.
(iv) Expenses incurred by Goswami Brothers :
Landing and clearing ₹ 1,500; Godown rent ₹ 1,000; Transport charges ₹ 1,000; Advertisement ₹ 800; Insurance ₹ 800.
(v) Advance remitted by the Agent ₹ 1,50,000.
(vi) Bills payable accepted ₹ 25,000.
(vii) Goods destroyed by fire (at original cost) in Agent's godown ₹ 35,000.
(viii) Bad debts ₹ 3,000.
(ix) Unsold stock with Agent at the close of the year (at original cost) ₹ 50,000.
(x) Insurance claim recovered by the consignor towards loss in transit ₹ 48,000.
(xi) Insurance claim recovered by the consignee towards loss by fire ₹ 35,000.

All sales were affected by the Agent at 25% on original cost. He is entitled to a commission of 10% on gross sales.
You are required to show the Consignor's Account (Sunrise Ltd.) as would appear in the books of Goswami Brothers.

**Solution** **In the books of Goswami Brothers**

**Dr.** **Sunrise Ltd. Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| | To Bank A/c (Advance) | | 1,50,000 | | By Bank A/c - Sales (Note 1) | 7,68,750 |
| | To Bills Payable A/c | | 25,000 | | By Bank A/c - Insurance claim | 35,000 |
| | To Bank A/c - expenses : | | | | | |
| | Landing and clearing | 1,500 | | | | |
| | Godown rent | 1,000 | | | | |
| | Transport charges | 1,000 | | | | |
| | Advertisements | 800 | | | | |
| | Insurance | 800 | 5,100 | | | |
| | To Commission A/c | | 76,875 | | | |
| | To Balance c/d - amount due | | 5,46,775 | | | |
| | | | 8,03,750 | | | 8,03,750 |

| **Working Note : (1) Calculation of Sale Proceeds** | | ₹ | |
|---|---|---|---|
| Cost of the goods sent | | 7,50,000 | |
| Less : Goods lost-in-transit | 50,000 | | Sales were made at 25% of original cost. Therefore, sales are |
| Goods lost-in-godown | 35,000 | | = ₹ 6,15,000 + 25% of ₹ 6,15,000 = ₹ **7,68,750**. |
| Unsold stock | 50,000 | 1,35,000 | |
| Cost of goods sold | | 6,15,000 | |

### *Illustration 25*

A of Calcutta sent on Consignment basis goods to B of Bombay at an invoice price of ₹ 29,675 and paid for freight ₹ 762, cartage ₹ 231 and insurance ₹ 700. Half the goods were sold by the agents for ₹ 17,500 subject to an agent's commission of ₹ 875, storage expenses of ₹ 200 and other selling expenses of ₹ 350. One-fourth of the consignment was lost in a fire and a claim of ₹ 5,000 recovered.

Draw up the necessary accounts in the books of A and ascertain the profit or loss assuming the closing stock to be one-fourth of the consignment. The agent reported that rest of the goods were also damaged and would need ₹ 700 for repairs.

**Solution** **In the books of A**

**Dr.** **Consignment to Bombay Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 29,675 | | By B A/c (sale proceeds) | 17,500 |
| | To Bank A/c | | | By Abnormal Loss A/c | 7,842 |
| | Freight | 762 | | By Stock on Consignment A/c | 7,842 |
| | Cartage | 231 | | By Profit & Loss on Consignment A/c | 309 |
| | Insurance | 700 | | | |
| | To B A/c | | | | |
| | Storage | 200 | | | |
| | Selling expenses | 350 | | | |
| | Commission | 875 | | | |
| | To Provision for repairs A/c | 700 | | | |
| | | 33,493 | | | 33,493 |

**Dr.** **B Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Bombay A/c | 17,500 | | By Consignment to Bombay A/c | 1,425 |
| | | | | By Balance c/d | 16,075 |
| | | 17,500 | | | 17,500 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Trading A/c (transfer) | 29,675 | | By Consignment to Bombay A/c | 29,675 |

**Dr.** **Abnormal Loss Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Bombay A/c | 7,842 | | By Bank A/c (claim) | 5,000 |
| | | | | By Profit & Loss A/c | 2,842 |
| | | 7,842 | | | 7,842 |

**Tutorial Note: :** To repair the damaged stock, an expense of ₹ 700 will be incurred. Therefore, we would make a provision of that amount by debiting 'Consignment Account' and crediting 'Provision for Repairs Account'—applying the concept of conservatism, 'anticipate no profit but provide for all possible losses.' In the Balance Sheet, the stock will appear as :

| | |
|---|---|
| Stock on Consignment | ₹ 7,842 |
| Less: Provision for Repairs | ₹ 700 |
| | ₹ 7,142 |

When the actual expenses will be incurred, we will pass the following entry:

| | | |
|---|---|---|
| Provision for Repairs Account | Dr. | 700 |
| To Cash Account | | 700 |

### *Illustration 26*

Star Mills Ltd. Surat, sends regular consignments of yarn to X who is the selling agent of the Mill and is entitled to a commission of 10 paise per kg of yarn sold. This includes del credere commission. The following further information is furnished to you:

On 1st July, 2016, stock of yarn with the agent 20,000 kg costing ₹ 50,000.

During the year ended 30th June, 2017 :

Total quantity of yarn consigned 1,60,000 kg. at ₹ 3 per kg

Total quantity of yarn sold 1,50,000 kg at ₹ 3.75 per kg including the opening stock of 20,000 kg.

Total remittances by the agent ₹ 5,10,000.

Railway freight paid by the agent ₹ 40,000.

Of the sales made, X could not collect ₹ 11,000 due to the insolvency of the customer.

5,000 kg of yarn were damaged in transit by the railway for which the agent recovered ₹ 6,000. The damaged goods were sold at the rate of ₹ 1.50 per kg. Show the following Ledger Accounts in the books of Star Mills Ltd for the year ended 30th June, 2017: (a) Consignment Account; (b) Goods Damaged in Transit Account; and (c) X Account.

***[I.C.W.A. (Inter) — Adapted]***

**Solution** **In the books of Star Mills Ltd**

**Dr.** **Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.7.2016 | To Stock on Consignment A/c | 50,000 | 30.6.2017 | By X A/c (sales) | 5,62,500 |
| | To Goods Sent on Consignment A/c | 4,80,000 | " | By Goods Damaged in Transit A/c | 16,250 |
| 30.6.2017 | To X A/c | | " | By Stock on Consignment A/c | 81,250 |
| | Railway freight | 40,000 | | | |
| | Commission | 15,000 | | | |
| " | To Profit & Loss on Consignment A/c | 75,000 | | | |
| | | 6,60,000 | | | 6,60,000 |

**Dr.** **Goods Damaged in Transit Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 30.6.2017 | To Consignment A/c | 16,250 | 30.6.2017 | By X A/c (amount recovered from Railway) | 6,000 |
| " | To X A/c (commission) | 500 | " | By X A/c (sale of damaged goods) | 7,500 |
| | | | " | By Profit & Loss A/c (Abnormal loss) | 3,250 |
| | | 16,750 | | | 16,750 |

**Dr.** **X Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 30.6.2017 | To Consignment A/c | 5,62,500 | 30.6.2017 | By Consignment A/c | 40,000 |
| " | To Goods Damaged in Transit A/c | 6,000 | " | By Consignment A/c (commission) | 15,000 |
| " | To Goods Damaged in Transit A/c | 7,500 | " | By Goods Damaged in Transit A/c | 500 |
| | | | " | By Bank A/c (Remittance) | 5,10,000 |
| | | | " | By Balance c/d | 10,500 |
| | | 5,76,000 | | | 5,76,000 |

**Working Notes : Valuation of Goods Damaged in Transit**

| | ₹ |
|---|---|
| Cost of goods sent | 4,80,000 |
| Add: Railway freight | 40,000 |
| Total cost of 1,60,000 kg | 5,20,000 |

Therefore, 1. The value of 5,000 kg damaged goods = (₹ 5,20,000 / 1,60,000) x 5,000 = ₹ 16,250;

2. The value of closing stock (25,000 kg) = (₹ 5,20,000 / 1,60,000) x 25,000 = ₹ 81,250.

### *Illustration 27*

A consigned to B on 1st January, 2017, 500 bales of cotton costing ₹ 100 per bale. Freight charges incurred in the consignment were ₹ 5,000. A drew a bill on B for ₹ 50,000 payable on 30th June, 2017 which B accepted. The bill was discounted by A with his banker on 31st January, 2017 at 12% p.a.

B rendered Account Sales to A on 31st March, 2017 showing sales of 300 bales for ₹ 80,000 and selling expenses of ₹ 5,000. B's commission was 10%. On this date, B remitted to A net amount due to him.

On 31st May, 2017 B sold the balance stock for ₹ 30,000 after incurring expenses of ₹ 4,000. He remitted ₹ 20,000 to A, the balance being treated as commission earned by him. On 30th June, 2017 the bill accepted by B was dishonoured by him and the amount due to the bank was paid off by A along with incidental charges of ₹ 200.

Pass journal entries in the books of A (including bank transactions).

**Solution** **In the books of A**

**Journal**

| Date | Particulars | | Dr. ₹. | Cr. ₹. |
|---|---|---|---|---|
| 2017 Jan 1 | Consignment to B A/c | Dr. | 50,000 | |
| | To Goods Sent on Consignment A/c | | | 50,000 |
| | (Being 500 bales of cotton sent to B on consignment @ ₹ 100 per bale as per proforma invoice No ...) | | | |
| | Consignment to B A/c | Dr. | 5,000 | |
| | To Bank A/c | | | 5,000 |
| | (Being freight charges incurred on the consignment to B) | | | |
| | Bills Receivable A/c | Dr. | 50,000 | |
| | To B A/c | | | 50,000 |
| | (Being a bills drawn on B for 6 months) | | | |

| | | | | |
|---|---|---|---|---|
| Jan 31 | Bank A/c | Dr. | 47,500 | |
| | Discount on Bills A/c | Dr. | 2,500 | |
| | To Bills Receivable A/c | | | 50,000 |
| | (Being bills receivable of B discounted @ 12% p.a. for 5 months) | | | |
| Mar 31 | B A/c | Dr. | 80,000 | |
| | To Consignment to B A/c | | | 80,000 |
| | (Being sale of 300 bales of cotton as per Account Sales) | | | |
| | Consignment to B A/c | Dr. | 13,000 | |
| | To B A/c | | | 13,000 |
| | (Being expenses incurred by B ₹ 5,000 and commission payable to him ₹ 8,000 as per Account Sales) | | | |
| | Bank A/c | Dr. | 17,000 | |
| | To B A/c | | | 17,000 |
| | (Being the amount received from B in settlement of sales to date after adjusting bill receivable expenses and commission) | | | |
| May 31 | B A/c | Dr. | 30,000 | |
| | To Consignment to B A/c | | | 30,000 |
| | (Being sale of remaining goods as per Account Sales) | | | |
| | Consignment A/c (see note) | Dr. | 10,000 | |
| | To B A/c ₹ (4000 + 6000) | | | 10,000 |
| | (Being expenses and commission payable to B) | | | |
| | Bank A/c | Dr. | 20,000 | |
| | To B A/c | | | 20,000 |
| | (Being the amount received from B in full settlement) | | | |
| | Consignment to B A/c | Dr. | 32,000 | |
| | To Profit & Loss on Consignment A/c | | | 32,000 |
| | (Being the profit on consignment transferred) | | | |
| June 30 | B A/c | Dr. | 50,200 | |
| | To Bank A/c | | | 50,200 |
| | (Being the bill accepted by B dishonoured and incidental charges ₹ 200 paid) | | | |

**Note**: Total sales ₹ 30,000 and expenses ₹ 4,000. So net proceeds = (₹ 30,000 – 4,000) = ₹ 26,000, but the amount sent by B is ₹ 20,000. The balance of ₹ 6,000 should be treated as commission.

### *Illustration 28*

Sri Mehta of Bombay consigns 1,000 cases of goods costing ₹ 100 each to Sri Sundaram of Madras. Sri Mehta pays the following expenses in connection with the consignment: carriage ₹ 1,000; freight ₹ 3,000; and loading charges ₹ 1,000.

Sri Sundaram sells 700 cases at ₹ 140 per case and incurs the following expenses : clearing charges ₹ 850; warehousing and storage ₹ 1,700; and packing and selling expenses ₹ 600. It is found that 50 cases have been lost in transit and 100 cases are still in transit. Sri Sundaram is entitled to a commission of 10% on gross sales. Draw up Consignment Account and Sundaram Account in the books of Mehta.

**Solution** **In the books of Mehta**

**Dr.** **Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 1,00,000 | | By Sundaram A/c (sales) | 98,000 |
| | To Cash A/c | | | By Abnormal Loss A/c | 5,250 |
| | Carriage | 1,000 | | By Stock on Consignment A/c | 15,900 |
| | Freight | 3,000 | | By Stock in Transit A/c | 10,500 |
| | Loading charges | 1,000 | | | |
| | To Sundaram A/c | | | | |
| | Clearing charges | 850 | | | |
| | Warehousing & storage | 1,700 | | | |
| | Packing and selling | 600 | | | |
| | Commission | 9,800 | | | |
| | To Profit & Loss on Consignment A/c | 11,700 | | | |
| | | 1,29,650 | | | 1,29,650 |

**Dr.** **Sundaram Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment A/c | 98,000 | | By Consignment A/c (expenses) | 3,150 |
| | | | | By Consignment A/c (commission) | 9,800 |
| | | | | By Balance c/d | 85,050 |
| | | 98,000 | | | 98,000 |

**Working Notes** :

| (1) Valuation of Abnormal Loss | ₹ | (3) Valuation of Closing Stock | ₹ |
|---|---|---|---|
| Cost of 1,000 cases @ ₹ 100 each | 1,00,000 | Total cost of 1,000 cases | 1,05,000 |
| Add: Non recurring expenses upto accident | 5,000 | Less : Cost of 50 cases lost in transit | 5,250 |
| Total cost of 1,000 cases | 1,05,000 | | 99,750 |
| Therefore, value of 50 cases = ₹ (1,05,000 / 1,000) x 50 = | 5,250 | Less: Cost of 100 cases still in transit | 10,500 |
| **(2) Valuation of Stock in Transit** | ₹ | Cost of 850 cases | 89,250 |
| Total cost of 1,000 cases (as above) | 1,05,000 | Add: Non recurring expenses of consignee (clearing charge) | 850 |
| Therefore, value of 100 cases (₹ 1,05,000 / 1,000) x 100 = | 10,500 | Total cost of 850 cases | 90,100 |
| | | Therefore, value of 150 cases = (₹ 90,100 / 850) x 150 = | 15,900 |

## Overriding Commission

It is an extra commission which, in addition, to the ordinary commission is allowed by the consignor to the consignee. This commission is normally granted in case sales exceed a specified amount. It can also be an incentive to the consignee for creating market for a new product.

### *Illustration 29*

On 1.10.2016, S Mittal of Faridabad sent on consignment to S Bros of Kolkata 100 boxes of goods costing ₹ 1,200 each and incurred ₹ 4,600 as freight, ₹ 300 as cartage and ₹ 600 as insurance in consigning the goods.

S Bros accepted a bill on 12.10.2016 at 3 months for 60% of the normal selling price of goods and S Mittal discounted the bill on 15.11.2016 at a discount of 12% p.a. The normal selling price was cost plus 45%.

S Bros had incurred ₹ 1,500 as unloading charges, ₹ 700 as godown rent and ₹ 1,600 as selling expenses. He was entitled to a commission @ 6% on normal selling price plus 20% of any surplus over and above the normal selling price.

He reported that 3/5th of the goods received had been sold for ₹ 1,16,400 and 10 boxes of goods were damaged on account of bad packing which would be sold only for ₹ 725 per box. It was found that 10 boxes of goods were still in transit on 31.12.2016 when the accounts of the consignor were closed. The amount due to S Mittal was remitted by a bank draft. Prepare necessary accounts in the books of S Mittal.

**Solution** **In the books of S Mittal**

**Dr.** **Consignment to Kolkata Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Oct. 1 | To Goods Sent on Consignment A/c | 1,20,000 | Dec. 31 | By S Bros A/c (Sale proceeds) | 1,16,400 |
| | To Bank A/c (Expenses) : | | | By Goods in Transit A/c (Note 1) | 12,550 |
| | Freight | 4,600 | | By Stock on Consignment A/c (Note 2) : | |
| | Cartage | 300 | | Good boxes | 33,063 |
| | Insurance | 600 | | Damaged boxes | 6,815 |
| Dec. 31 | To S Bros A/c : | | | | |
| | Unloading charges | 1,500 | | | |
| | Godown rent | 700 | | | |
| | Selling expenses | 1,600 | | | |
| | Commission (Note 3) | 10,126 | | | |
| | To Profit and Loss on Consignment A/c | 29,402 | | | |
| | | 1,68,828 | | | 1,68,828 |

**Dr.** **S Brothers Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec. 31 | To Consignment to Kolkata A/c | 1,16,400 | Oct. 12 | By Bills Receivable A/c (Note 5) | 1,04,400 |
| " | To Balance c/d (Note 4) | 31,494 | Dec. 31 | By Consignment to Kolkata A/c : | |
| | | | | Unloading charges | 1,500 |
| | | | | Godown rent | 700 |
| | | | | Selling expenses | 1,600 |
| | | | | Commission | 10,126 |
| | | | " | By Bank A/c | 29,568 |
| | | 1,47,894 | | | 1,47,894 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 | | | 2016 | | |
| Dec. 31 | To Purchases A/c (Transfer) | 1,20,000 | Oct. 1 | By Consignment to Kolkata A/c | 1,20,000 |
| | | 1,20,000 | | | 1,20,000 |

**Dr.** **Goods in Transit Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Consignment to Kolkata A/c | 12,550 | 2016 Dec. 31 | By Balance c/d | 12,550 |
| | | 12,550 | | | 12,550 |

**Dr.** **Stock on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Consignment to Kolkata A/c : | | 2016 Dec. 31 | By Balance c/d | 39,878 |
| | Good boxes | 33,063 | | | |
| | Damaged boxes | 6,815 | | | |
| | | 39,878 | | | 39,878 |

**Working Notes :**

**(1) Calculation of Goods in Transit**

| | ₹ |
|---|---|
| Cost price of 10 boxes | 12,000 |
| Add: Proportionate expenses of the consignor (₹ 5,500 × 10 / 100) | 550 |
| Value of goods in transit | 12,550 |

**(2)** Out of 100 boxes sent, 10 boxes are still in transit at the year end. Therefore, number of boxes received by the consignee is 100 – 10 = 90 boxes. The consignee sold 3/5th of 90 boxes = 54 boxes. Therefore, boxes in hand is calculated as :

| | |
|---|---|
| damaged boxes | 10 boxes |
| good boxes (36 – 10) | 26 boxes |
| | 36 boxes |

**Calculation of Stock on Consignment (good boxes)**

| | ₹ |
|---|---|
| Cost of 26 boxes (26 × ₹ 1,200) | 31,200 |
| Add: Proportionate expenses of the consignor (₹ 5,500 / 100 × 26) | 1,430 |
| Add: Proportionate non-recurring expenses of the consignee (₹ 1,500 / 90 × 26) | 433 |
| Value of stock on consignment (good boxes) | 33,063 |

**Calculation of Stock on Consignment (damaged boxes)**

| | |
|---|---|
| Sales value of 10 boxes (10 × ₹ 725) | 7,250 |
| Less: Ordinary commission payable (6% on ₹ 7,250) | 435 |
| Value of stock on consignment (damaged boxes) | 6,815 |

**(3) Calculation of Commission**

Normal selling price per unit = Cost price + 45% of cost price = ₹ 1,200 + 45% of ₹ 1,200 = ₹ 1,740

| | |
|---|---|
| Ordinary commission (6% on 54 × ₹ 1,740) | 5,638 |
| Special commission [20% on (₹ 1,16,400 – 54 × 1,740)] | 4,488 |
| | 10,126 |

**(4)** It is assumed that the bill was drawn as an advance against the security of the goods sent. Therefore, the advance will be adjusted proportionately, which is calculated as under :

60% of (26 × ₹ 1,740 + 10 × ₹ 725) = ₹ 31,494.

**(5)** Amount of the bill = 60% of (₹ 1,740 × 100) = ₹ 1,04,400.

**(6)** Discounting charges of the bill is a financial charge. It should be debited in the Profit and Loss Account.

### *Illustration 30*

X of Calcutta sent 80 machines to Y of Bombay on 1st January, 2016 on the following terms:

1. All the machines were to be sold 25% above the cost price of ₹ 20,000 each. Any deficit in selling price was to be borne by Y and 50% of the surplus selling price was to be retained by him.
2. Y would get 3% commission and 2% Del Credere commission on all sales. X incurred transport charges of ₹ 80,000. Y sent Account Sales on 31st December, 2016 as: (i) 20 machines sold for ₹ 24,000 each; (ii) 40 machines sold for ₹ 30,000 each; (iii) 5 machines sold for ₹ 25,000 each. (iv) Unloading charges ₹ 8,000; and (v) Selling expenses ₹ 5,000. Y sent a bank draft for the net amount due to X along with the Account Sales.

On 30th June, 2017 Y sent a further Account Sales as: (a) 5 machines sold for ₹ 22,000 each; (b) 10 machines sold for ₹ 40,000 each and sent a bank draft for the amount due.

X closed its books on 31st December each year. Prepare Ledger Accounts in the books of X.

**Solution** **In the books of X**

**Dr.** **Consignment to Bombay Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2016 | To Goods Sent on Consignment A/c | 16,00,000 | 31.12.2016 | By Y A/c (sales) | 18,05,000 |
| " | To Bank A/c (transport charges) | 80,000 | " | By Stock on Consignment A/c (Note 3) | 3,16,500 |

| | | | | | |
|---|---|---|---|---|---|
| 31.12.2016 | To Y A/c : Unloading | 8,000 | | | |
| | Selling expenses | 5,000 | | | |
| | Commission (Note 2) | 1,70,250 | | | |
| " | To Profit & Loss on Consignment A/c | 2,58,250 | | | |
| | | 21,21,500 | | | 21,21,500 |
| 1.1.2017 | To Stock on Consignment A/c | 3,16,500 | 30.6.2017 | By Y A/c (sales) | 5,10,000 |
| " | To Y A/c (commission) (Note 2) | 85,500 | | | |
| " | To Profit & Loss on Consignment A/c | 1,08,000 | | | |
| | | 5,10,000 | | | 5,10,000 |

**Dr. Y Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2016 | To Consignment to Bombay A/c | 18,05,000 | 31.12.2016 | By Consignment to Bombay A/c | 13,000 |
| | | | " | By Consignment to Bombay A/c | 1,70,250 |
| | | | " | By Bank A/c | 16,21,750 |
| | | 18,05,000 | | | 18,05,000 |
| 30.6.2017 | To Consignment to Bombay A/c | 5,10,000 | 30.6.2017 | By Consignment to Bombay A/c | 85,500 |
| | | | " | By Bank A/c | 4,24,500 |
| | | 5,10,000 | | | 5,10,000 |

**Working Notes :**

**(1) Minimum selling price** = Cost + 25% Profit on cost = ₹ 20,000 + 5,000 = ₹ 25,000

**(2) Calculation of Commission**

| | ₹ |
|---|---|
| 2016 5% on Sales proceeds of ₹ 18,05,000 | 90,250 |
| 50% of surplus realization : 40 × (₹ 30,000 – ₹ 25,000) | 1,00,000 |
| | 1,90,250 |
| Less: Deficit in selling price : 20 × ( ₹ 25,000 – 24,000) | 20,000 |
| | 1,70,250 |
| 2017 5% on Sales proceeds of ₹ 5,10,000 | 25,500 |
| 50% of surplus realization : 10 × (₹ 40,000 – 25,000) | 75,000 |
| | 1,00,500 |
| Less: Deficit in selling price : 5 × (25,000 – 22,000) | 15,000 |
| | 85,500 |

**(3) Valuation of Closing Stock**

| Particulars | ₹. | |
|---|---|---|
| **Cost price of 80 machines** | 16,00,000 | Therefore, value of closing stock |
| Add : Non-recurring expenses (₹ 80,000 + ₹ 8,000) | 88,000 | = ₹ 16,88,000 / 80 x 15 = ₹ 3,16,500. |
| **Total Cost** | 16,88,000 | |

## *Illustration 31*

X of Calcutta sent on15th January, 2017, a consignment of 500 bicycles costing ₹ 100 each to Y of Bombay Expenses of ₹ 700 were met by the consignor. Y of Bombay spent ₹ 1,500 for clearance and the selling expenses were ₹ 10 per bicycle.

Y sold on 4th April, 2017, 300 bicycles @ ₹ 160 each and again on 20th June, 2017, 150 bicycles @ ₹ 172 each.

Y was entitled to a commission of ₹ 25 per bicycle sold plus one-fourth of the amount by which gross sale proceeds, less total commission thereon, exceeded a sum calculated @ ₹ 125 per bicycle sold. Y sent the amount due to X on 30th June, 2017. You are to show necessary accounts in the books of X.

**Solution In the books of X**

**Dr. Consignment to Y Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 15.1.2017 | To Goods Sent on Consignment A/c | 50,000 | 30.6.2017 | By Y A/c (sales) | 73,800 |
| " | To Bank A/c (expenses) | 700 | " | By Consignment Stock A/c | 5,220 |
| 30.6.2017 | To Y A/c | | | | |
| | Clearance | 1,500 | | | |
| | Selling expenses | 4,500 | | | |
| | Commission (Note 1) | 12,510 | | | |
| " | To Profit & Loss on Consignment A/c | 9,810 | | | |
| | | 79,020 | | | 79,020 |

**Dr.** **Y Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 30.6.2017 | To Consignment to Y A/c | 73,800 | 30.6.2017 | By Consignment to Y A/c | 6,000 |
| | | | " | By Consignment to Y A/c | 12,510 |
| | | | " | By Bank A/c | 55,290 |
| | | 73,800 | | | 73,800 |

**Working Notes: (1) Calculation of Commission**

Let total commission payable to Y = X

x = [(450 x 25) + 1/4 {(73,800 – x) – (450 x 125)}]

or x = 11,250 + 1/4 (73,800 – 56,250 – x)

or x = 11,250 + 1/4 (17,550 – x)

or x = 11,250 + 4,387.5 – 1/4x or x+1/4x = 15,637.5 or 5x = 62,550 or x = ₹ 12,510.

**(2) Valuation of Closing Stock**

| | ₹ |
|---|---|
| Cost @ ₹ 100 = | 50,000 |
| Add: Non recurring exp (700 + 1,500) | 2,200 |
| Cost of 500 bicycles | 52,200 |
| Therefore, cost of 50 bicycles | 5,220 |

## Return of Goods from the Consignee

Owing to wrong policy, it is quite possible that some part of the goods may be returned by the consignee to the consignor. When goods are returned, the consignor passes the following entry:

Goods Sent on Consignment Account Dr.
To Consignment to ... Account

When goods are returned, there will definitely be some expenses. These expenses will be paid either by the consignor or by the consignee. ***The problem arises whether the expenses incurred should be charged to the Consignment Account or not.***

Some accountants say that since the expense are related to the consignment, it should be charged to the Consignment Account. Others argue that the expenses on returning the goods are not expenses for the consignment, rather it is a policy cost, so it should be charged to General Profit and Loss Account in place of Consignment Account.

***In examinations, the expenses on returning the goods are generally charged to the Consignment Account***.

The consignor passes the following entry:

Consignment to ... Account Dr.
To Cash/Bank Account [when paid by consignor]
To Consignee Account [when paid by the consignee]

### *Illustration 32*

On 1.4.2016 Mr Doshi of Darjeeling consigned 2,000 kg of tea costing ₹ 60 per kg. to Mr. Naik of Nagpur. Mr Doshi incurred the following expenses: Freight ₹ 2,000; insurance ₹ 400 and sundry expenses ₹ 600.

During the year ended 31.3.2017, Mr. Naik incurred the following expenses: Freight ₹ 600; godown rent ₹ 500 and carriage to godown ₹ 1,000.

On 1.12.2016 Mr. Naik sold 1,200 kg of tea for cash at a profit of 25% on sales. On 15.12.2016, Mr. Naik returned 150 kg. of tea, which were of poor quality to Mr. Doshi and paid returned freight and carriage charges of ₹ 250. Out of the remaining tea, 200 kg being partially damaged were valued at 30% less than cost.

Mr. Naik charged his commission at 5% and the balance so far due from him to Mr. Doshi on 31.3.2017. Mr Doshi closes his books every year on 31st March.

You are required to prepare the following accounts in the books of Mr Doshi:

(a) Consignment to Nagpur Account;

(b) Goods Sent on Consignment Account;

(c) Personal Account of Mr Naik.

**Solution** **In the books of Mr Doshi**

**Dr.** **Consignment to Nagpur Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.4.2016 | To Goods Sent on Consignment A/c | 1,20,000 | 1.12.2016 | By Naik A/c (Sales) | 96,000 |
| " | To Bank A/c | | 15.12.2016 | By Goods Sent on Consignment A/c | 9,000 |
| | Freight | 2,000 | | By Abnormal Loss A/c (Note 1) | 4,420 |
| | Insurance | 400 | 31.3.2017 | By Stock on Consignment A/c | |
| | Sundry expenses | 600 | | Good units | 27,900 |
| 15.12.2016 | To Mr Naik A/c (Freight & carriage return) | 250 | | Damaged units | 7,980 |

| | | | | | |
|---|---|---|---|---|---|
| 31.3.2017 | To Mr Naik A/c | | | | |
| | Freight | 600 | | | |
| | Godown rent | 500 | | | |
| | Carriage to godown | 1,000 | | | |
| | Commission | 4,800 | | | |
| " | To Profit & Loss on Consignment A/c | 15,150 | | | |
| | | 1,45,300 | | | 1,45,300 |

**Dr.** **Mr Naik Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.12.2016 | To Consignment to Nagpur A/c | 96,000 | 31.12.2016 | By Consignment to Nagpur A/c | 250 |
| | | | 31.3.2017 | By Consignment to Nagpur A/c | 6,900 |
| | | | " | By Bank A/c (remittance) | 88,850 |
| | | 96,000 | | | 96,000 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 15.12.2016 | To Consignment to Nagpur A/c | 9,000 | 1.4.2017 | By Consignment to Nagpur A/c | 1,20,000 |
| 31.3.2017 | To Trading A/c | 1,11,000 | | | |
| | | 1,20,000 | | | 1,20,000 |

**Working Notes** :

| (1) Valuation of Abnormal Loss | | ₹ | (2) Valuation of Closing Stock | ₹ |
|---|---|---|---|---|
| Cost of 200 kg @ ₹ 60 per kg | | 12,000 | Cost of 450 kg @ ₹ 60 per kg | 27,000 |
| Add: 1/10 (2,000 + 400 + 600 + 1,000) non recurring exp. | | 400 | Add: Proportionate non recurring exp. (4,000 / 2,000) x 450 | 900 |
| | | 12,400 | (i) Value of good quality tea | 27,900 |
| Less: Estimated value | | | (ii) Value of damaged quality tea | 7,980 |
| Cost | 12,000 | | Value of closing stock | 35,880 |
| Less: 30% | 3,600 | | | |
| | 8,400 | | | |
| Less: Commission @ 5% | 420 | 7,980 | | |
| Abnormal Loss | | 4,420 | | |

## Invoice Price Method

Sometimes, the consignor may prefer to send goods to the consignee at a higher price than the cost price and, accordingly, prepares the 'Proforma Invoice' by adding some profit on cost or on sales. For example, C of Calcutta consigned 100 cases of goods to D of Delhi on 1st January, 2017. The cost per case is ₹ 500. The Proforma Invoice was made to show a 20% profit on cost.

Here, Proforma Invoice will be prepared @ ₹ 600 (₹ 500 + 20% of 500) per case and the Consignment Account will be debited with ₹ 60,000 though the actual cost of goods is ₹ 50,000.

The goods are charged to the consignee not at cost but at higher price with a view

(i) to keep the profit on consignment secret;

(ii) to give incentive to the consignee to realize the highest possible price; and

(iii) to make him charge a uniform price.

The method of preparation of accounts is the same as in the *cost price method*, except for a few adjustments which are explained below. ***Journal Entries*** are as under:

*1. For sending goods to the consignee*

Consignment to .... Account Dr.

To Goods Sent on Consignment Account (Invoice value of goods sent)

*2. For payment of expenses by the consignor*

Consignment to ... Account Dr.

To Cash/Bank Account (If paid)

To Creditors for Expenses Account (If unpaid)

*3. For receipts of advance from the consignee*

*(a) When payment is received in cash or bank draft*

| | |
|---|---|
| Cash or Bank Account | Dr. |
| To Consignee Account | |

*(b) When a bill is accepted by the consignee*

| | |
|---|---|
| Bills Receivable Account | Dr. |
| To Consignee's Account | |

*4. For Abnormal Loss*

| | |
|---|---|
| Abnormal Loss Account | Dr. |
| To Consignment to ... Account | |

*5. For closing Abnormal Loss Account*

| | |
|---|---|
| Insurance Claim Account | Dr. [claim admitted] |
| Consignment Account | Dr. [loading on goods lost] |
| Profit and Loss Account | Dr. [balance] |
| To Abnormal Loss Account | |

*6. When Account Sales is received from the consignee*

Immediately after receiving the Account Sales, the consignor will pass the following entries:

*(a) For sale of goods by the consignee*

| | |
|---|---|
| Consignee Account | Dr. (Gross sales Proceeds) |
| To Consignment to ... Account | |

*(b) For expenses incurred by the consignee*

| | |
|---|---|
| Consignment to ... Account | Dr. |
| To Consignee Account | |

*(c) For commission of the Consignee*

| | |
|---|---|
| Consignment to ... Account | Dr. |
| To Consignee Account | |

*(d) For receiving remittance from the consignee*

| | |
|---|---|
| Bank Account | Dr. |
| To Consignee Account | |

*7. For bringing down the value of goods sent to its cost*

| | |
|---|---|
| Goods sent on Consignment Account | Dr. (Difference between Invoice value and cost) |
| To Consignment to ... Account | |

*8. For stock on consignment*

| | |
|---|---|
| Stock on Consignment Account | Dr. (Proportionate Invoice value plus proportionate |
| To Consignment to ... Account | non recurring expenses) |

*9. For adjusting value of Closing Stock*

| | |
|---|---|
| Consignment to ... Account | Dr. (Total loading / Total qty x Unsold qty) |
| To Stock Reserve Account | |

*10. The profit should be calculated in the usual manner*

*(a) For profit on consignment*

| | |
|---|---|
| Consignment to ... Account | Dr. |
| To Profit and Loss on Consignment Account | |

*(b) For loss on consignment*

| | |
|---|---|
| Profit and Loss on Consignment Account | Dr. |
| To Consignment to ... Account | |

*11. The balance of the 'Goods sent on Consignment Account' should be transferred to Trading Account (If the consignor is a manufacturer) or to a Purchases Account (if the consignor is a trader).*

*12. The balance of the 'Stock on Consignment Account' and 'Stock Reserve Account' should be carried down on the respective side of the account. In the Balance Sheet Stock on Consignment Account should be shown on the assets side and Stock Reserve should be shown by way of deduction from stock on consignment.*

**Balance Sheet as at ....**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| | | Stock on Consignment | **** |
| | | Less: Stock Reserve | **** |

*13. At the beginning of the next accounting year, the balance of the Stock on Consignment Account will be transferred to the debit side of the Consignment Account and the Stock Reserve will be transferred to the credit side of the Consignment Account.*

### *Illustration 33*

Tilak of Tatanagar consigned goods costing ₹ 2,00,000 to his agent Pulak of Patna. The invoice was made pro-forma so as to show a profit of 25% on cost. Tilak paid freight and insurance ₹ 4,000. Pulak sold part of the consignment for ₹ 1,76,000 at a uniform price of 10% over invoice price and spent ₹ 6,000 as warehousing charges and ₹ 2,000 as selling expenses. Pulak is entitled to a commission of 5% on sales and 20% of the net profit after charging commission on sales. Draw up the Consignment Account in the books of Tilak.

**Solution** **In the books of Tilak**

**Dr.** **Consignment to Patna Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c (Note 1) | 2,50,000 | | By Goods Sent on Consignment A/c | 50,000 |
| | To Bank A/c (freight and insurance) | 4,000 | | By Pulak A/c (Sale proceeds) | 1,76,000 |
| | To Pulak A/c : | | | By Stock on Consignment A/c (Note 2) | 91,440 |
| | Warehousing Charges | 6,000 | | | |
| | Selling Expenses | 2,000 | | | |
| | Commission (5% on ₹ 1,76,000) | 8,800 | | | |
| | To Stock Reserve A/c (Note 3) | 18,000 | | | |
| | To Profit c/d | 28,640 | | | |
| | | 3,17,440 | | | 3,17,440 |
| | To Pulak A/c | 5,728 | | By Profit b/d | 28,640 |
| | (Share of Profit — 20% on ₹ 28,640) | | | | |
| | To Profit and Loss on Consignment A/c | 22,912 | | | |
| | | 28,640 | | | 28,640 |

**Working Notes :**

**1. Invoice price** = Cost price + 25% profit on cost (loading) = ₹ 2,00,000 + ₹ 50,000 = ₹ 2,50,000.

**2. Valuation of Stock on Consignment**

| | ₹ |
|---|---|
| Invoice price of the goods sent | 2,50,000 |
| Less: Invoice price of the goods sold (₹ 1,76,000 / 110 × 100) | 1,60,000 |
| Invoice price of the stock on consignment | 90,000 |
| Add: Proporationate non-recurring expenses (₹ 4,000 × 90,000 / 2,50,000) — Freight and Insurance | 1,440 |
| | 91,440 |

**3. Loading on Stock on Consignment** = ₹ 90,000 × 25 / 125 = ₹ 18,000.

### *Illustration 34*

K of Kolkata consigned goods to D of Delhi for sale at loaded price. D is entitled to a commission on sale at 7.5% on proforma invoice price and 20% of any surplus price realised.

Goods consigned by K to D during the year ended 31st March, 2014 cost to K ₹ 41,800 and invoiced at ₹ 56,800. K paid ₹ 2,500 freight and received ₹ 15,000 as advance from D. 80% of the goods were sold by D for ₹ 50,000. D remitted the balance of proceeds after deducting his commission.

Show Consignment Account in the books of K.

**Solution** **In the books of K**

**Dr.** **Consignment to Delhi Account** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Goods Sent on Consignment A/c (at Invoice price) | 56,800 | By Goods Sent on Consignment A/c | |
| To Bank A/c (Freight Paid) | 2,500 | (Loading on goods sent) | 15,000 |
| To D A/c (Commission — Note 1) | 4,320 | By D A/c (80% goods sold) | 50,000 |
| To Stock Reserve A/c (₹ 15,000 x 20%) | 3,000 | By Consignment Stock A/c (₹ 56,800 + 2,500) x 20% | 11,860 |
| To Profit on Consignment A/c | 10,240 | | |
| | 76,860 | | 76,860 |

**Working Notes :** **(1) Calculation of Commission Payable**

| Partners | (₹) |
|---|---|
| Sales Value of 80% Goods | 50,000 |
| Less: Invoice Price of 80% Goods (₹ 56,800 x 0.8) | 45,440 |
| **Excess Price Realised** | 4,560 |

| | |
|---|---|
| Commission on ₹ 45,440 @ 7.5% | 3,408 |
| on ₹ 4,560 @ 20% | 912 |
| | **4,320** |

### *Illustration 35*

Sun of Siliguri consigned goods costing ₹ 90,000 to Moon of Mumbai. The invoice price was made so as to show a profit of $33^{1}/_{3}$% on cost. Sun paid ₹ 600 as carriage and ₹ 2,400 as freight and insurance. Goods costing ₹ 10,000 were destroyed while in transit and the insurance company admitted the full claim.

In Mumbai, Moon paid ₹ 480 as carriage and ₹ 1,200 as godown rent. Two-third of the goods received by Moon was sold by her at invoice price.

Moon sent a cheque to Sun for the sale proceeds after deducting the expenses incurred by her and the commission due to her — ordinary @ 5% and del-credere @ $2^{1}/_{2}$%.

Show the Consignment Account and Moon's Account in Sun's ledger.

**Solution** **In the books of Sun**

**Dr.** **Consignment to Mumbai Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | | 1,20,000 | | By Goods Sent on Consignment A/c (Loading) | 30,000 |
| | To Cash : | | | | By Abnormal Loss (Note 1) | 13,666 |
| | Carriage | 600 | | | By Moon A/c : | |
| | Freight | 2,400 | 3,000 | | Sales (Note 2) | 71,110 |
| | To Abnormal Loss (Loading) | | 3,333 | | By Stock on Consignment A/c (Note 3) | 36,604 |
| | To Moon A/c : | | | | | |
| | Carriage | | 480 | | | |
| | Godown Rent | | 1,200 | | | |
| | Ordinary Commission | | 3,556 | | | |
| | Del Commission | | 1,778 | | | |
| | To Stock Reserve | | 8,889 | | | |
| | To Profit and Loss on Consignment A/c | | 9,144 | | | |
| | | | 1,51,380 | | | 1,51,380 |

**Working Notes :**

**(1) Abnormal Loss** **(2) Calculation of Sales**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| Original Cost of Goods Destroyed | 10,000 | Original Cost of Goods Sent | 90,000 |
| Add: Proportionate Consignor's Expenses | 333 | Less: Cost of Goods Lost | 10,000 |
| (3,000 / 90,000 x 10,000) | 10,333 | | 80,000 |
| Add: Loading (10,000 / 3) | 3,333 | Less: Cost of Goods Sold (2/3 of 80,000) | 53,333 |
| | 13,666 | Unsold Goods at Original Cost | 26,667 |
| | | Cost | 53,333 |
| | | Add: Profit 1/3 | 17,777 |
| | | Total Sales | 71,110 |

**(3) Calculation of Unsold Stock**

| | |
|---|---|
| Original cost of goods unsold | 26,667 |
| Add: Proportionate expenses of Consignor (30,000 / 90,000 × 26,667) | 888 |
| Add: Proportionate expenses of Consignee (480 / 80,000 × 26,667) | 160 |
| | 27,715 |
| Add: Loading | 8,889 |
| | 36,604 |

## *Illustration 36*

B. K. Traders of Kolkata consigned goods costing ₹ 75,000 to Ramesh Traders of Patna. The invoice was made so as to show a profit of $33^{1}/_{3}$% on cost. B. K. Traders paid ₹ 900 as carriage and ₹ 1,400 as freight and insurance. Goods costing ₹ 7,500 were destroyed while in transit and the Insurance company admitted the full claim.

Ramesh Traders in Patna paid ₹ 600 as carriage and ₹ 800 as godown rent. Two-thirds of the goods received by Ramesh Traders were sold by them at invoice price. Ramesh Traders sent a cheque to B.K. Traders for the sale proceeds after deducting the expenses incurred by them and the commission due to them. Ramesh Traders was entitled to ordinary commission ₹ 7.5% and del-credere commission @ 2.5% on sales. Show Consignment Account in the books of B.K. Traders.

**Solution** **In the books of B. K. Traders**

**Dr.** **Consignment to Patna Account** **Cr.**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Goods Sent on Consignment A/c | | 1,00,000 | By Goods Sent on Consignment (Load on Goods Sent) | 25,000 |
| To Cash A/c : | | | By Abnormal Loss A/c (Note 1) | 10,230 |
| Carriage | 900 | | By Ramesh Traders A/c (Note 4) | 60,000 |
| Freight | 1,400 | 2,300 | By Stock on Consignment A/c (Note 3) | 30,890 |
| To Abnormal Loss (Loading) | | 2,500 | | |
| To Ramesh Traders A/c : | | | | |
| Carriage | 600 | | | |
| Godown Rent | 800 | | | |
| Ordinary Commission @ 7.5% | 4,500 | | | |
| Del-credere Commission @ 2.5% | 1,500 | 7,400 | | |
| To Stock Reserve A/c | | 7,500 | | |
| To Profit and Loss on Consignment A/c | | 6,420 | | |
| | | 1,26,120 | | 1,26,120 |

**Working Notes :**

**(1) Calculation of Abnrmal Loss in Transit**

| | ₹ |
|---|---|
| Original cost of goods destroyed | 7,500 |
| Add: Proposed non-recurring expenses of consignor $\frac{2,300}{75,000} \times 7,500$ | 230 |
| Cost of goods destroyed | 7,730 |
| Add: Loading (7,500 × 1/3) | 2,500 |
| Invoice Price of Abnormal Loss | 10,230 |

**(2) Calculation of Original Cost of Goods Unsold**

| | |
|---|---|
| Original cost of goods sent | 75,000 |
| Less: Destroyed in transit | 7,500 |
| Original cost of goods received by consignee | 67,500 |
| Less: Sold by consignee (67,500 × 2/3) | 45,000 |
| Original cost of goods unsold | 22,500 |

**(3) Unsold Stock in Hands of Consignee**

| | |
|---|---|
| Original cost of goods unsold | 22,500 |
| Add: Proportionate consignor expenses : $\frac{2,300}{75,000} \times 22,500$ | 200 |
| | 23,390 |
| Add: Loading (₹ 22,500 × 1/3) | 7,500 |
| | 30,890 |

**(4) Sales by Consignee**

| | |
|---|---|
| Original cost of goods sold | 45,000 |
| Add: Loading (45,000 × 1/3) | 15,000 |
| | 60,000 |

### *Illustration 37*

On 1st January, 2016 Seth Bros. of Kandla consigned 200 cycles to Panigrahi & Sons of Paradeep. Each cycle costing ₹ 800. The goods were charged at a proforma invoice price to show a 25% profit on cost. On the same date, the consignor paid ₹ 4,000 as freight and insurance. On 30th April, the consignee sent a bank draft for ₹ 1,00,000 to the consignor as advance. On 31st December, 2016 the consignee sent an Account Sale informing that 180 cycles have been sold for ₹ 1,200 each. They have incurred the following expenses in respect of the consignment: (i) Unloading charges ₹ 1,000; (ii) Cycle fitting charges ₹ 2,000; and (iii) Godown rent ₹ 4,200. With the Account Sale the consignee sent a remittance for the balance due to the consignor after deducting commission of 5% on gross sale proceeds.

You are required to show necessary Ledger Accounts in the books of Seth Bros and Seth Bros Account in the books of Panigrahi & sons.

**Solution** **In the books of Seth Bros**

**Dr.** **Consignment to Paradeep Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.1.2016 | To Goods Sent on Consignment A/c | 2,00,000 | 31.12.2016 | By Panigrahi & Sons A/c (sale proceeds) | 2,16,000 |
| " | To Bank A/c (freight & insurance) | 4,000 | " | By Goods Sent on Consignment A/c (loading) | 40,000 |
| 31.12.2016 | To Panigrahi & Sons A/c | | " | By Stock on Consignment A/c (Note 5) | 20,700 |
| | Unloading charges | 1,000 | | | |
| | Cycle Fitting charges | 2,000 | | | |
| | Godown rent | 4,200 | | | |
| | Commission @ 5% | 10,800 | | | |
| " | To Stock Reserve A/c | 4,000 | | | |
| " | To Profit & Loss on Consignment A/c | 50,700 | | | |
| | | 2,76,700 | | | 2,76,700 |

**Dr.** **Goods Sent on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2016 | To Consignment to Paradeep A/c | 40,000 | 1.1.2016 | By Consignment to Paradeep A/c | 2,00,000 |
| | To Trading A/c | 1,60,000 | | | |
| | | 2,00,000 | | | 2,00,000 |

**Dr.** **Stock on Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2016 | To Consignment to Paradeep A/c | 20,700 | 31.12.2016 | By Balance c/d | 20,700 |
| 1.1.2017 | To Balance b/d | 20,700 | 1.1.2017 | By Consignment to Paradeep A/c | 20,700 |

**Dr.** **Panigrahi & Sons Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2016 | To Consignment to Paradeep A/c | 2,16,000 | 31.12.2016 | By Advance Against Consignment A/c | 1,00,000 |
| | | | " | By Consignment to Paradeep A/c | 18,000 |
| | | | " | By Bank A/c (final payment) | 98,000 |
| | | 2,16,000 | | | 2,16,000 |

**Dr.** **Stock Reserve Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2016 | To Balance c/d | 4,000 | 31.12.2016 | By Consignment to Paradeep A/c | 4,000 |
| 1.1.2017 | To Consignment to Paradeep A/c | 4,000 | 1.1.2017 | By Balance b/d | 4,000 |

**Dr.** **Advance Against Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.12.2016 | To Panigrahi & Sons A/c | 1,00,000 | 30.4.2016 | By Bank A/c | 1,00,000 |

**Working Notes** :

**1. Invoice Price** = Cost price + 25% profit on cost = ₹ 800 + ₹ 200 = ₹ 1,000;

**2. Loading per cycle** = Invoice price – Cost price = ₹ 1,000 – 800 = ₹ 200;

**3. Total Loading** = 200 x 200 = ₹ 40,000;

**4. Loading on Unsold stock** = (₹ 40,000 / 200) x 20 = ₹ 4,000;

**5. Valuation of Closing Stock**

| | ₹ |
|---|---|
| Invoice price of goods sent | 2,00,000 |
| Add: Freight & insurance : 4,000 + Unloading charges : 1,000 + Fitting charges : 2,000 | 7,000 |
| Value of 200 cycles at Invoice price | 2,07,000 |

Therefore, value of 20 unsold cycles = ₹ 20,700.

**6.** Advance of ₹ 1,00,000 has not been treated as security on goods sent.

**In the books of Panigrahi & Sons**

**Dr. Seth Bros Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| ? | To Bank A/c | | 2016 ? | By Bank A/c (sales) | 2,16,000 |
| | Unloading charges | 1,000 | | | |
| | Fitting charges | 2,000 | | | |
| | Godown rent | 4,200 | | | |
| | To Commission Received A/c | 10,800 | | | |
| 31.12.2016 | To Advance Against Consignment A/c | 1,00,000 | | | |
| | To Bank A/c (final payment) | 98,000 | | | |
| | | 2,16,000 | | | 2,16,000 |

**Dr. Advance Against Consignment Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 30.4.2016 | To Bank A/c | 1,00,000 | 31.12.2016 | By Seth Bros. A/c | 1,00,000 |

## Invoice Price—Memorandum Column Method

When goods are sent at a proforma invoice price this method may be used for writing up the Consignment Account and Goods sent on Consignment Account. This method is a modification of the cost price method. Under this method, Consignment Account is provided with an additional column in which memorandum entries in respect of invoice value of goods consigned, amount of sales and value of unsold stock are recorded. This memorandum column is meant only for information and the profit or loss on consignment will not be affected. *The solution of the previous illustration under this method is given below:*

**Dr. Consignment to Paradeep Account Cr.**

| Date | Particulars | Memo | Amount | Date | Particulars | Memo | Amount |
|---|---|---|---|---|---|---|---|
| 1.1.2016 | To Goods Sent on Consignment A/c | 2,00,000 | 1,60,000 | 31.12.2016 | By Panigrahi & Sons A/c | 2,16,000 | 2,16,000 |
| | To Bank A/c (freight) | 4,000 | 4,000 | | By Stock A/c | 20,700 | 16,700 |
| 31.12.2016 | To Panigrahi & Sons A/c | | | | | | |
| | Unloading | 1,000 | 1,000 | | | | |
| | Fitting charges | 2,000 | 2,000 | | | | |
| | Godown rent | 4,200 | 4,200 | | | | |
| | Commission | 10,800 | 10,800 | | | | |
| | To Profit & Loss on Consignment A/c | 14,700 | 50,700 | | | | |
| | | 2,36,700 | 2,32,700 | | | 2,36,700 | 2,32,700 |

**Dr. Goods Sent on Consignment Account Cr.**

| Date | Particulars | Memo | Amount | Date | Particulars | Memo | Amount |
|---|---|---|---|---|---|---|---|
| 31.12.2016 | To Purchases A/c | 2,00,000 | 1,60,000 | 1.1.2016 | By Consignment to Paradeep A/c | 2,00,000 | 1,60,000 |

***It should be noted that the memo column may be added and balanced but the profit or loss disclosed by that column is immaterial. The actual profit or loss will be disclosed by amount column of the Consignment Account.*** Other accounts will appear as usual, so these accounts have not been shown.

### *Illustration 38*

Goods at an invoice value of ₹ 1,32,000 were consigned by Choudhury & Co. of Calcutta to their agent Gupta & Co. of Allahabad at a proforma invoice of 20% profit on cost.

Freight paid by the consignor amounted to ₹ 5,000. Gupta & Co. was allowed 5% ordinary commission and 3% del credere commission on gross sales. They were also allowed 5% of the net profits as extra commission after charging such commission. Allahabad expenses were : landing and clearing charges ₹ 1,020, godown insurance premium ₹ 2,500.

3/4th of the goods were sold at 25% profit on sales, 1/10th of the balance of goods were destroyed by fire and a claim for ₹ 8,500 was settled by the insurance company.

Prepare Consignment Account, Gupta & Co. Account, Stock Destroyed Account and Consignment Stock Account in the books of Choudhury & Co.

**Solution** **In the books of Choudhury & Co.**

**Dr.** **Consignment to Allahabad Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 1,32,000 | | By Goods Sent on Consignment A/c (loading) | 22,000 |
| | To Bank A/c (freight) | 5,000 | | By Gupta & Co. A/c (sales) | 1,10,000 |
| | To Gupta & Co. A/c : | | | By Stock Destroyed A/c (invoice price) | 3,450 |
| | Landing charges | 1,020 | | By Consignment Stock A/c | 31,055 |
| | Godown insurance premium | 2,500 | | | |
| | Commission (8% on ₹ 1,10,000) | 8,800 | | | |
| | To Stock Destroyed A/c (loading) | 550 | | | |
| | To Gupta & Co. A/c (extra commission) | 556 | | | |
| | To Stock Reserve A/c | 4,950 | | | |
| | To Profit & Loss on Consignment A/c | 11,129 | | | |
| | | 1,66,505 | | | 1,66,505 |

**Dr.** **Gupta & Co. Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment Stock A/c | 1,10,000 | | By Consignment to Allahabad A/c | 12,320 |
| | | | | By Consignment to Allahabad A/c | 556 |
| | | | | By Balance c/d | 97,124 |
| | | 1,10,000 | | | 1,10,000 |

**Dr.** **Stock Destroyed Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Allahabad A/c (I.P.) | 3,450 | | By Consignment to Allahabad A/c (loading) | 550 |
| | To Profit & Loss A/c | 5,600 | | By Insurance Company A/c (Note 6) | 8,500 |
| | | 9,050 | | | 9,050 |

**Dr.** **Consignment Stock Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Allahabad A/c | 31,055 | | By Balance c/d | 31,055 |

| **Working Notes : (1) Loading on Goods Sent** | ₹ | **(2) Calculation of Sales** | |
|---|---|---|---|
| Invoice price of goods sent | 1,32,000 | Cost price of goods sent (₹ 1,32,000 – 22,000) | 1,10,000 |
| Loading is 1/5th on cost, or, 1/6th of invoice price, i.e. **22,000** | | Sales = ₹ 1,10,000 x 3/4 x 4/3 = **1,10,000** | |
| **(3) Valuation of Goods Destroyed and Closing stock** | ₹ | **(4) Calculation of Loading on Stock Destroyed and Unsold Stock** | |
| Invoice price of goods sent | 1,32,000 | Total loading | 32,000 |
| Add: Consignor's expenses | 5,000 | Loading on stock destroyed = 1/40 x ₹ 22,000 | 550 |
| Consinee's expenses (Non-recurring) | 1,020 | Loading on unsold stock = 9/40 x ₹ 22,000 | 4,950 |
| | 1,38,020 | **(5) Extra Commission** | |
| 3/4th of the goods are sold. Therefore, balance remains 1/4th | | Profit before special commission = ₹ 11,685. Therefore | |
| Goods destroyed 1/4 x 1/10 = 1/40 | | extra commission is = 5/105 x ₹ 11,685 | 556 |
| Invoice price of goods destroyed = 1/40 x ₹ 1,38,200 | 3,450 | **(6)** In practice, insurance company compensates the policy-holder to the extent of actual loss. Actual loss is ₹ 2,900 but in the question, it is given that claim admitted by the insurance company is ₹ 8,500, which in our opinion is not correct. | |
| Closing stock 1/4 x 9/10 = 9/40 | | | |
| Invoice price of unsold stock = 9/40x ₹ 1,38,020 | 31,055 | | |

# Special Problems

### *Illustration 39*

Calcutta Ayurvedic Ltd. produces a bottle of "Draksharista" at a cost of ₹ 10. They appointed Madras Medical Stores of Madras as their agent on the terms that the agent would get commission @ 10% on invoice price of goods sold and also an extra commission at 25% on any excess amount realised over invoice price.

On 1.7.2016, Calcutta Ayurvedic Ltd. sent 50 boxes of "Draksharista" each box containing 50 bottles at invoice price showing a profit of $33\frac{1}{3}$% on such invoice price. They spent ₹ 3,000 for freight and ₹ 2,000 for insurance. 5 boxes were completely destroyed in transit and insurance claim of ₹ 2,300 was realised from the insurance company. The agent took delivery of the remaining goods and spent ₹ 2,000 for duty and ₹ 1,000 for freight to carry the goods to the rented godown. He also sent a Bill of Exchange for ₹ 20,000 payable after 2 months to the consignor as advance.

At the end of the year, the agent reported that 40 boxes were sold at ₹ 18 per bottle and 1 box of goods was lost due to bad packaging. This would be treated as normal loss. The agent remitted a bank draft for the net amount after deducting his commission, advance money, godown rent ₹ 800 and selling expense ₹ 200.

On 1.1.2017, Calcutta Ayurvedic Ltd. discounted the bill of ₹ 20,000 for ₹ 19,800. On 1.3.2017, bank informed that the bill was dishonoured. Calcutta Ayurvedic Ltd. demanded the entire amount along with an additional amount of ₹ 200 as interest. The Madras agent sent a bank draft for the amount on 15.3.2017.

You are asked to show the following Ledger Accounts in the books of the consignor : (a) Consignment to Madras Account; (b) Madras Medical Stores Account; (c) Consignment Stock Account; (d) Consignment Stock Destroyed Account; (e) Consignment Stock Reserve Account.

**Solution** **In the books of Calcutta Ayurvedic Limited**

**Dr.** **Consignment to Madras Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|---|
| 2016 July 1 | To Goods Sent on Consignment A/c | | 37,500 | 2016 July 1 | By Goods Sent on Consignment A/c (Loading) | 12,500 |
| ? | To Cash A/c : | | | ? | By Consignment Stock Destroyed A/c (Note 2) | 4,250 |
| | Freight | 3,000 | | Dec. 31 | By Madras Medical Stores A/c (Sales) | 36,000 |
| | Insurance | 2,000 | 5,000 | " | By Consignment Stock A/c (Note 4) | 3,750 |
| Dec. 31 | To Madras Medical Stores A/c : | | | | | |
| | Duty | 2,000 | | | | |
| | Freight | 1,000 | | | | |
| | Godown rent | 800 | | | | |
| | Selling | 200 | | | | |
| | Commission (Note 1) | 4,500 | 8,500 | | | |
| " | To Consignment Stock Destroyed A/c (Note 3) | | 1,250 | | | |
| " | To Consignment Stock Reserve A/c (Note 5) | | 1,023 | | | |
| " | To Profit & Loss on Consignment A/c | | 3,227 | | | |
| | | | 56,500 | | | 56,500 |

**Dr.** **Madras Medical Stores Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Consignment to Madras A/c | 36,000 | 2016 Dec. 31 | By Advance against Consignment A/c | 20,000 |
| | | | " | By Consignment to Madras A/c (exp. + comm.) | 8,500 |
| | | | " | By Bank A/c (remittance) | 7,500 |
| | | 36,000 | | | 36,000 |
| 2017 Mar. 1 | To Bank A/c (bill dishonoured) | 20,000 | 2017 Mar. 15 | By Bank A/c (final remittance) | 20,200 |
| | To Interest Received A/c | 200 | | | |
| | | 20,200 | | | 20,200 |

**Dr.** **Consignment Stock Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Consignment to Madras A/c | 3,750 | 2016 Dec. 31 | By Balance c/d | 3,750 |

**Dr.** **Consignment Stock Destroyed Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 ? | To Consignment to Madras A/c (Invoice price) | 4,250 | 2016 ? | By Consignment to Madras A/c (loading) | 1,250 |
| | | | ? | By Bank A/c (insurance claim) | 2,300 |
| | | | | By Profit & Loss A/c (abnormal loss) | 700 |
| | | 4,250 | | | 4,250 |

**Dr.** **Consignment Stock Reserve Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Balance c/d | 1,023 | 2016 Dec. 31 | By Consignment to Madras A/c | 1,023 |

**Dr.** **Advance Against Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2016 Dec. 31 | To Madras Medical Stores A/c | 20,000 | 2016 July 1 | By Bills Receivable A/c | 20,000 |

| **Working Notes :**<br>**(1) Calculation of Commission** | ₹ | **(2) Valuation of Abnormal Loss at Invoice Price** | ₹ |
|---|---|---|---|
| Sales at invoice price (40 x 50 x ₹ 15) | 30,000 | Invoice price of the goods sent | 37,500 |
| Ordinary commission (10% on ₹ 30,000) | 3,000 | Add : Expenses of the consignor | 5,000 |
| Extra commission 25% of ₹ (36,000 – 30,000) | 1,500 | Invoice price of 50 boxes | 42,500 |
| Total commission | 4,500 | Value of abnormal loss — 5 boxes (₹ 42,500 / 50 x 5) | 4,250 |
| **(3) Loading on Abnormal Loss** | ₹ | **(4) Valuation of Closing Stock at Invoice Price** | ₹ |
| Total loading on goods sent | 12,500 | Value of the goods sent at invoice price (Note 2) | 42,500 |
| Loading on abnormal loss 12,500 / 50 x 5 | 1,250 | Less: Value of abnormal loss at invoice price | 4,250 |
| **(5) Loading on Closing Stock** | ₹ | Invoice price of 45 boxes | 38,250 |
| Total loading | 12,500 | Add: Expenses of the consignee (non-recurring) | 3,000 |
| Less: Loading on abnormal loss | 1,250 | Total value of the goods at invoice price (44 boxes) | 41,250 |
| | 11,250 | Value of closing stock 41,250 / 44 x 4 | 3,750 |
| Loading on closing stock 11,250 / 44 x 4 | 1,023 | | |

### *Illustration 40*

The Account Sales of 1,200 transistor sets received from and sold on account of and the risk of Sri U. Chopra, Kolkata.

| Particulars | | ₹ | ₹ |
|---|---|---|---|
| 1,200 Transistor sets @ ₹ 1,200 | | | 14,40,000 |
| Less : Expenses : | ₹ | | |
| Unloading expenses | 3,000 | | |
| Selling Expenses | 4,000 | | |
| Transport Charges | 6,100 | | |
| Godown Rent | 6,000 | | |
| Advertisements | 2,000 | 21,100 | |
| Less: Commission : | | | |
| 5% Ordinary Commission | 72,000 | | |
| 1% Del Credere Commission | 14,400 | 86,400 | 1,07,500 |
| | | | 13,32,500 |
| Less : Advance sent on 10.1.2017 | | | 2,50,000 |
| | | | 10,82,500 |
| Bank draft enclosed; Stock in hand (31.3.2017) — 100 sets | | | E. & O. E. |
| Dated, Madras, the 26th April, 2017 | | | S. Raman |

On further information you come to know that :

(i) Bad Debts amounted to ₹ 2,400 against 2 sets;

(ii) 20% above the invoice price is the sale price which is equal to cost plus 50%;

(iii) Chopra incurred forwarding expenses @ ₹ 10 per set; and

(iv) During transit 10 sets became fully damaged and Chopra recovered from insurance the full amount of the original cost.

You are required to prepare the Consignment Account, Goods Sent on Consignment Account and Loss in Transit Account in the books of Chopra.

**Solution** **In the books of Mr. Chopra**

**Dr.** **Consignment to Madras Account** **Cr.**

| Date | Particulars | | ₹ | Date | Particulars | | ₹ |
|---|---|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c (Note 1) | | 13,10,000 | | By Goods Sent on Consignment A/c - loading | | 2,62,000 |
| | To Bank A/c — forwarding expenses | | 13,100 | | By Loss in Transit A/c | | 10,100 |
| | To S. Raman A/c — expenses : | | | | By S. Raman A/c | | 14,40,000 |
| | Unloading expenses | 3,000 | | | By Stock on Consignment A/c | | 1,01,230 |
| | Selling expenses | 4,000 | | | 100 x ₹ 1,000 | 1,00,000 | |
| | Transport charges | 6,100 | | | 100 x ₹ 10 | 1,000 | |
| | Godown rent | 6,000 | | | 3,000 / 1,300 | 230 | |
| | Advertisements | 2,000 | 21,100 | | | 1,01,230 | |
| | To S. Raman A/c - Commission: | ₹ | | | | | |
| | 5% Ordinary | 72,000 | | | | | |
| | 1% Del Credere | 14,400 | 86,400 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | To Loss in Transit A/c - Loading (₹ 200 x 10) | 2,000 | | | |
| | To Stock Reserve A/c (₹ 200 x 100) | 20,000 | | | |
| | To Profit & Loss on Consignment A/c | 3,60,730 | | | |
| | | 18,13,330 | | | 18,13,330 |

**Dr. Goods Sent on Consignment Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Madras A/c | 2,62,000 | | By Consignment to Madras A/c | 13,10,000 |
| | To Purchases A/c - transfer | 10,48,000 | | | |
| | | 13,10,000 | | | 13,10,000 |

**Dr. Loss in Transit Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Madras A/c | 10,100 | | By Consignment to Madras A/c (Loading) | 2,000 |
| | | | | By Bank A/c - Insurance claim (Note 2) | 8,000 |
| | | | | By Profit and Loss A/c | 100 |
| | | 10,100 | | | 10,100 |

**Working Notes :**

**(1)** Sale price of each set is ₹ 1,200 (₹ 14,40,000 ÷ 1,200). Therefore, invoice price of each set is ₹ 1,000 (₹ 1,200 × 100 ÷ 120). Invoice price of (1,200 + 100 + 10) 1,310 sets is 1,310 × ₹ 1,000 = ₹ 13,10,000. Cost plus 50% = Selling price. Therefore, cost price of each transistor = ₹ 1,200 / 150 **x** 100 = ₹ 800. Loading per set = ₹ 1,000 – ₹ 800 = ₹ 200.

**(2)** It is assumed that the original cost does not include forwarding expenses of ₹ 10 per set.
The original cost will be 10 **x** ₹ 800 = ₹ **8,000**

## *Illustration 41*

Rahim of Bombay consigned to Raju of Madras goods to be sold at invoice price which represents 125% of cost. Raju is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Rahim were ₹ 10,000. The account sales received by Rahim shows that Raju effected sales aggregating to ₹ 1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹ 8,000, 10% of the consignment goods of the value of ₹ 12,500 were destroyed by fire at the Madras godown and the insurance company paid ₹ 12,000 net of salvage. Raju remitted the balance in favour of Rahim. Prepare the Consignment Account and the account of Raju in the books of Rahim along with necessary working.

***[C.A. (Foundation) — Adapted]***

**Solution In the books of Rahim**

**Dr. Consignment to Madras Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c (Note 1) | 1,25,000 | | By Goods Sent on Consignment A/c (Loading) | 25,000 |
| | To Bank A/c (freight & insurance) | 10,000 | | By Raju A/c (Sales) | 1,00,000 |
| | To Raju A/c (Expenses — selling) | 8,000 | | By Abnormal Loss A/c (Note 2) | 13,500 |
| | To Raju A/c — Commission (Note 4) | 10,938 | | By Stock on Consignment A/c (Note 3) | 20,250 |
| | To Stock Reserve A/c (Note 5) | 3,750 | | By Profit and Loss on Consignment A/c | 1,438 |
| | To Abnormal Loss A/c (Note 6) | 2,500 | | | |
| | | 1,60,188 | | | 1,60,188 |

**Dr. Raju Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Madras A/c — Sales | 1,00,000 | | By Consignment to Madras A/c (Selling Exp.) | 8,000 |
| | | | | By Consignment to Madras A/c (Commission) | 10,938 |
| | | | | By Bank A/c (Final payment) | 81,062 |
| | | 1,00,000 | | | 1,00,000 |

**Working Notes :**

**(1) The value of 10% of the goods destroyed by fire is ₹ 12,500.**
**Therefore, the invoice value of the goods sent is ₹ 12,500 / 10% = ₹ 1,25,000.**

| **(2) Valuation of Abnormal Loss** | ₹ |
|---|---|
| Value of stock lost by fire | 12,500 |
| Add: Proportionate expenses upto fire (10% of ₹ 10,000) | 1,000 |
| Value of abnormal loss at invoice price | 13,500 |

| **(3) Valuation of Stock on Consignment** | ₹ |
|---|---|
| Invoice value of unsold stock (15% of ₹ 1,25,000) | 18,750 |
| Add: Proportionate non-recurring expenses (15% of ₹ 10,000) | 1,500 |
| | 20,250 |

| **(5) Calculation of Stock Reserve** | ₹ |
|---|---|
| Total loading on goods sent | 25,000 |
| Therefore, loading on closing stock is 15% of ₹ 25,000 | 3,750 |

| **(4) Calculation of Commission** | ₹ |
|---|---|
| Sale proceeds (75% of Consignment) | 1,00,000 |
| Less: Invoice value of sale proceeds (75% of ₹ 1,25,000) | 93,750 |
| Excess sale proceeds received over invoice price | 6,250 |
| Therefore, commission is : | |
| (1) @ 10% on sales in invoice price | 9,375 |
| (2) @ 25% on excess sale proceeds | 1,563 |
| | 10,938 |

| **(6) Loading on Abnormal Loss** | ₹ |
|---|---|
| Total loading on goods sent | 25,000 |
| Therefore, loading on goods lost by fire (10%) | 2,500 |

**Dr.** **Abnormal Loss Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Madras A/c | 13,500 | | By Bank A/c — claim received | 12,000 |
| | To Profit and Loss A/c | 1,000 | | By Consignment to Madras A/c (Loading) | 2,500 |
| | | 14,500 | | | 14,500 |

### *Illustration 42*

Tanya Motors of Delhi purchased 50 used Maruti cars for ₹ 50,00,000. Out of these, 30 cars were sent on consignment to Hari Motors of Kanpur at a selling price of ₹ 1,20,000 per car. The consignor paid ₹ 60,000 in sending the cars to Kanpur. Hari Motors sold 25 cars for ₹ 33,00,000. Hari Motors incurred ₹ 30,000 as the selling expenses. Out of the remaining 5 cars, Hari Motors kept one car for their personal use at an agreed price of ₹ 1,25,000. 2 cars got damaged and were sold for ₹ 2,00,000 only. Owing to fall in market price of old cars, the value of remaining cars in stock be reduced by 10%. Tanya Motors sold 20 cars at Delhi for ₹ 25,00,000. Hari Motors is entitled to 5% commission on sales.

Prepare the Consignment Account, Trading and Profit and Loss Account of Tanya Motors and the account of Tanya Motors in the books of the consignee, Hari Motors.

***[C.A. (Inter) — Adapted]***

**Solution** **In the books of Tanya Motors**

**Dr.** **Consignment to Kanpur Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 36,00,000 | | By Goods Sent on Cosignment A/c (Loading) | | 6,00,000 |
| | To Bank A/c (expenses) | 60,000 | | By Hari Motors A/c (sale proceeds) : | | |
| | To Hari Motor A/c : | | | 25 good cars | 33,00,000 | |
| | Selling expenses | 30,000 | | 1 car taken over | 1,25,000 | |
| | Commission (5% on ₹ 36,25,000) | 1,81,250 | | 2 damaged cars | 2,00,000 | 36,25,000 |
| | To Stock Reserve A/c (Note 1) | 73,000 | | By Stock on Consignment A/c (Note 1) | | 2,44,000 |
| | To Profit and Loss on Consignment A/c | 5,24,750 | | | | |
| | | 44,69,000 | | | | 44,69,000 |

**Dr.** **Trading, and Profit and Loss Account for the year ended . . .** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Purchases A/c (₹ 50,00,000 – 30,00,000) | 20,00,000 | By Sales A/c | 25,00,000 |
| To Gross Profit c/d | 5,00,000 | | |
| | 25,00,000 | | 25,00,000 |
| To Net Profit | 10,24,750 | By Gross Profit b/d | 5,00,000 |
| | | By Profit and Loss on Consignment A/c | 5,24,750 |
| | 10,24,750 | | 10,24,750 |

**In the books of Hari Motors**

**Dr.** **Tanya Motors Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ | ₹ |
|---|---|---|---|---|---|---|
| | To Bank A/c (Selling expenses) | 30,000 | | By Cash A/c (Sale proceeds) : | | |
| | To Commission Received A/c | 1,81,250 | | 25 good cars | 33,00,000 | |
| | To Balance c/d | 34,13,750 | | 2 damaged cars | 2,00,000 | 35,00,000 |
| | | | | By Drawings A/c (car taken over) | | 1,25,000 |
| | | 36,25,000 | | | | 36,25,000 |

**Working Note :**

| **(1) Valuation of Stock on Consignment and Stock Reserve** | | ₹ |
|---|---|---|
| Invoice price of 2 cars (₹ 1,20,000 × 2) | | 2,40,000 |
| Add: Proportionate non-recurring expenses (₹ 60,000 / 30 × 2) | | 4,000 |
| **Value of Stock at Invoice price** | | 2,44,000 |
| Less: Net realisable value of stock : | | |
| Market price (₹ 90,000* × 2) | 1,80,000 | |
| Less: 5% Commission** | 9,000 | 1,71,000 |
| **Stock Reserve** | | 73,000 |

* Original cost = ₹ 1,00,000 less 10% = ₹ 90,000.

** Applying the concept of conservatism, all other possible expenses to be incurred in selling those goods are to be provided for, which will include the commission payable to the consignee.

## *Illustration 43*

P of Calcutta consigned goods costing ₹ 45,000 to Q of Delhi. The invoice was made so as to show a profit of 33-$^{1}/_{3}$% on cost. P paid ₹ 300 as carriage and ₹ 1,200 as freight and insurance. Goods costing ₹ 5,000 were destroyed in transit and the insurance company admitted the full claim.

In Delhi Q paid ₹ 240 as carriage and ₹ 600 as godown rent. Two-thirds of the goods received by Q were sold by him. Q sent a cheque to P for the sale proceeds after deducting the expenses incurred by him and the commission due to him — ordinary 5% and del credere 2$^{1}/_{2}$%. Show the Consignment Account and Q Account in P's Ledger.

**Solution** **In the books of P**

**Dr.** **Consignment to Delhi Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 60,000 | | By Q A/c (sales) (Note 2) | 35,556 |
| | To Bank A/c | | | By Abnormal Loss A/c (invoice price) | 6,833 |
| | Carriage | 300 | | By Goods Sent on Consignment A/c (loading) | 15,000 |
| | Freight and Insurance | 1,200 | | By Stock on Consignment A/c (Note 3) | 18,302 |
| | To Q A/c | | | | |
| | Carriage | 240 | | | |
| | Godown Rent | 600 | | | |
| | Commission | 2,667 | | | |
| | To Abnormal Loss A/c (loading) (Note 5) | 1,667 | | | |
| | To Stock Reserve A/c (loading) | 4,444 | | | |
| | To Profit & Loss on Consignment A/c | 4,573 | | | |
| | | 75,691 | | | 75,691 |

**Dr.** **Q Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Delhi A/c | 35,556 | | By Consignmet to Delhi A/c | 3,507 |
| | | | | By Bank A/c (balance received) | 32,049 |
| | | 35,556 | | | 35,556 |

**Working Notes** :

| **(1) Valuation of Abnormal Loss** | ₹ | **(2) Calculation of Sale Proceeds** | ₹ |
|---|---|---|---|
| Invoice price of goods sent | 60,000 | Cost price of goods sent | 45,000 |
| Add: Expenses of consignor prior to loss | 1,500 | Less: Cost of goods lost | 5,000 |
| Value of goods sent at invoice price | 61,500 | Cost of goods reached to Consignee | 40,000 |
| Value of Abnormal Loss : (61,500 / 45,000) x 5,000 | 6,833 | Add: Loading — 33-1/3% of 40,000 | 13,333 |
| **(3) Valuation of Stock on Consignment** | | Invoice price of goods received | 53,333 |
| Invoice price of goods sent | 60,000 | Sales : 2/3 (₹ 53,333) | 35,556 |
| Add: Expenses of consignor | 1,500 | **(4) Loading on Goods Lost** | |
| | 61,500 | | |
| Less: Abnormal loss (Note 1) | 6,833 | = $\frac{\text{Rs } 15,000}{\text{Rs } 45,000}$ x Rs 5,000 = **₹ 1,667** | |
| | 54,667 | | |
| Add: Expenses of the consignee after loss (non-recurring) | 240 | **(5) Loading on Unsold Stock** | |
| Total value of goods at invoice price | 54,907 | 1/3 (₹ 15,000 — ₹ 1,667) | 4,444 |
| Value of unsold goods (1/3rd of goods received) | 18,302 | | |

**Dr.** **Abnormal Loss Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Delhi A/c | 6,833 | | By Consignment to Delhi A/c (loading) | 1,667 |
| | | | | By Insurance Co A/c (claim admitted) | 5,166 |
| | | 6,833 | | | 6,833 |

## *Illustration 44*

On 1st July, 2016, M of Madras consigned goods to the value of ₹ 50,000 to P of Patna. This was made by adding 25% on the cost. M paid ₹ 2,500 for freight and ₹ 1,500 for insurance. During transit 1/10th of the goods was totally destroyed by fire and a sum of ₹ 2,400 was realised from the insurance company.

On arrival of the goods, P paid ₹ 1,800 as carriage to godown. During the year ended 30th June, 2017, P paid ₹ 3,600 for godown rent and ₹ 1,900 for selling expenses. 1/9th of the remaining goods were again destroyed by fire in godown and nothing was recovered from the insurance company. Upto 30th June, 2017, P sold half of the original goods for ₹ 30,000 and charged a commission of 5% on sales. On 30th June, 2017, P sent a bank draft to M for the amount so far due from him. You are required to prepare Consignment Account in the books of M of Madras for the year ended 30th June, 2017.

**Solution** **In the books of M**

**Dr.** **Consignment to Patna Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.7.2016 | To Goods Sent on Consignment A/c | 50,000 | 1.7.2016 | By Goods Sent on Consignment A/c (loading) | 10,000 |
| | To Bank A/c : | | | By Abnormal Loss A/c (during transit : Note 1) | 5,400 |
| | Freight | 2,500 | 30.6.2017 | By P A/c (Sales) | 30,000 |
| | Insurance | 1,500 | 30.6.2017 | By Abnormal Loss A/c (in godown : Note 2) | 5,600 |
| | To Abnormal Loss A/c (loading : Note 1) | 1,000 | 30.6.2017 | By Stock on Consignment A/c (Note 3) | 16,800 |
| 30.6.2017 | To P A/c : | | | | |
| | Carriage | 1,800 | | | |
| | Godown rent | 3,600 | | | |
| | Selling expenses | 1,900 | | | |
| | Commission | 1,500 | | | |
| 30.6.2017 | To Abnormal Loss A/c (loading : Note 2) | 1,000 | | | |
| 30.6.2017 | To Stock Reserve A/c (loading : Note 3) | 3,000 | | | |
| | | 67,800 | | | 67,800 |

**Working Notes :**

**(1) Valuation of Abnormal Loss in Transit**

| | ₹ |
|---|---|
| Invoice price of goods sent | 50,000 |
| Add: Expenses of the consignor prior to loss (₹ 2,500 + 1,500) | 4,000 |
| Value of goods sent at invoice price | 54,000 |

Value of abnormal loss at invoice price = 1/10th of ₹ 54,000 = ₹ 5,400.

The insurance claim received will not affect the Consignment Account. It will be shown in the Abnormal Loss Account. The difference between the cost and insurance claim received will be transferred to Profit and Loss Account.

**Loading on Abnormal Loss in Transit**

Total loading = ₹ (50,000 – 40,000) = ₹ 10,000.

Loading on abnormal loss = 10% on ₹ 10,000 = ₹ **1,000**.

**(2) Valuation of Abnormal Loss in Godown**

| | ₹ |
|---|---|
| Value of goods sent at invoice price (Note 1) | 54,000 |
| Less: Abnormal loss in transit (Note 1) | 5,400 |
| Value of goods received by the consignee | 48,600 |
| Add: Expenses of consignee (non-recurring) prior to loss | 1,800 |
| Value of goods prior to loss | 50,400 |

Value of abnormal loss at invoice price = 1/9th of ₹ 50,400 = ₹ **5,600**.

**Loading on Abnormal Loss in Godown**

| | ₹ |
|---|---|
| Total loading | 10,000 |
| Less: Loading on abnormal loss in transit | 1,000 |
| Loading on goods received by the consignee | 9,000 |

Loading on abnormal loss in godown = 1/9th of ₹ 9,000 = ₹ **1,000**.

**(3) Valuation of Stock on Consignment**

Let, the consignor sent 100 units. 10% lost in transit. Therefore, consignee received 90 units. Out of that 1/2 of the original goods sold, i.e., 50 units. Destroyed in transit 10 units (1/9th of 90 units). Therefore, stock in hand [100 – (10 + 10 + 50)] = **30 units**.

Valuation of stock at invoice price = ₹ 50,400 / 90 × 30 = ₹ **16,800**.

Stock reserve = ₹ 10,000 / 100 × 30 = ₹ **3,000**.

### *Illustration 45*

Modern Breweries of Bombay consigned 5000 litres of liquor to Saha Brothers of Calcutta on 1st February, 2017. The goods are charged at a Proforma Invoice value of ₹ 2,00,000 including profit of 20% on invoice. Modern Breweries paid ₹ 5,000 as freight and insurance charges.

During transit 200 litres were destroyed for which the insurance company paid directly to the consignor ₹ 5,000 in full settlement of the claim.

On 25th February, Saha Brothers paid for carriage and clearing charges ₹ 3,100 and sent to the consignor a bank draft for ₹ 40,000 as security. Other expenses paid by the consignee were godown rent ₹ 1,200 and salesman's salary ₹ 900. Saha Brothers were entitled to a commission of 4% plus 2% del credere on sales.

On 31st March, 2017 Saha Brothers reported that 4,000 litres were sold at ₹ 1,65,000 and 50 litres were lost due to evaporation. A customer who bought liquor for ₹ 1,500 was able to pay 40% of the amount due from him.

Assuming that Saha Brothers paid the amount by a bank draft, show the Consignment Account and Saha Bros Account, Advance Against Consignment Account in the books of Modern Breweries.

On the date of closing the accounts, market price of liquor was ₹ 33.50 per litre.

**Solution** **In the books of Modern Breweries Ltd**

**Dr.** **Consignment to Calcutta Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 1.2.2017 | To Goods Sent on Consignment A/c | 2,00,000 | 25.2.2017 | By Goods Sent on Consignment A/c | 40,000 |
| " | To Cash A/c (freight & insurance) | 5,000 | " | By Abnormal Loss A/c (invoice price) | 8,200 |
| 31.3.2017 | To Saha Bros A/c | | 31.3.2017 | By Saha Bros A/c (sales) | 1,65,000 |
| | Carriage | 3,100 | " | By Stock on Consignment A/c (Note 2) | 31,563 |
| | Godown rent | 1,200 | | | |
| | Salesman salary | 900 | | | |
| | Ordinary commission | 6,600 | | | |
| | Del credere commission | 3,300 | | | |
| " | To Abnormal Loss A/c (loading) | 1,600 | | | |
| " | To Stock Reserve A/c | 7,946 | | | |
| " | To Profit & Loss on Consignment A/c | 15,117 | | | |
| | | 2,44,763 | | | 2,44,763 |

**Dr.** **Saha Bros Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.3.2017 | To Consignment to Calcutta A/c | 1,65,000 | 31.3.2017 | By Advance Against Consignment A/c | 34,000 |
| | | | " | By Consignment to Calcutta A/c (Expenses) | 5,200 |
| | | | " | By Consignment to Calcutta A/c (Commission) | 9,900 |
| | | | " | By Bank A/c (balance paid) | 1,15,900 |
| | | 1,65,000 | | | 1,65,000 |

**Dr.** **Advance Against Consignment Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.3.2017 | To Saha Bros. A/c | 34,000 | 25.2.2017 | By Bank A/c | 40,000 |
| " | To Balance c/d (Note 6) | 6,000 | | | |
| | | 40,000 | | | 40,000 |

**Working Notes** :

| **(1) Valuation of Abnormal Loss** | ₹ |
|---|---|
| Invoice price of 5,000 litres | 2,00,000 |
| Add: Freight & insurance before accident | 5,000 |
| Value of 5,000 litres at invoice price | 2,05,000 |
| Value of 200 litres (₹ 2,05,000 / 5,000) x 200 | 8,200 |
| **(3) Loading on Goods Sent** | |
| 1/5 (₹ 2,00,000) | 40,000 |
| **(4) Loading on Abnormal Loss** | |
| (40,000 / 5,000) x 200 | 1,600 |

| **(2) Valuation of Closing Stock** | | ₹ |
|---|---|---|
| Value of 5,000 litres at invoice price | | 2,05,000 |
| Less: Value of 200 litres at invoice price | | 8,200 |
| Value of 4,800 litres at invoice price | | 1,96,800 |
| Add: Carriage & clearance paid by consignee | | 3,100 |
| Value of (4,800 – 50) = 4,750 litres at invoice price | | 1,99,900 |
| Value of 750 litres (₹1,99,900 / 4,750) x 750 | | 31,563 |
| Less: Market price (₹ 33.5 x 750) | 25,125 | |
| Less: Commission @ 6% | 1,508 | 23,617 |
| **Stock Reserve** | | 7,946 |

| **(5) Liquor in Stock** | | ₹ | **(6) Adjustment for Security** |
|---|---|---|---|
| Sent out | (in litres) | 5,000 | Security for 5,000 litres is ₹ 40,000. |
| Lost in transit | | 200 | So, security for 750 litres = ₹ 6,000. |
| | | 4,800 | |
| Less: Normal loss | | 50 | |
| | | 4,750 | |
| Less: Sold | | 4,000 | |
| **Closing Stock** | | 750 | |

## Correction of Errors

We know that goods sent on consignment is not a sale but sometimes it is recorded as sales in the consignor's books by debiting the Consignee Account and crediting the Sales Account. For correction, the following entry should be passed:

**When goods were sent at cost price**

| | Entries already passed | | | Correcting Entries | |
|---|---|---|---|---|---|
| (1) | **For Goods sent**<br>(a) Consignee A/c<br>To Sales/Goods A/c | Dr. (cost price) | (1) | **For Goods sent**<br>(a) Sales/Goods A/c<br>To Consignee A/c | Dr. (cost price) |
| | | | | (b) Consignment A/c<br>To Goods Sent on Consignment A/c | Dr. (cost price) |
| | OR<br>(b) Consignee A/c<br>To Goods Sent on Consignment A/c | Dr. (cost price) | | OR<br>(b) Consignment A/c<br>To Consignee A/c | Dr . (cost price) |
| (2) | **For Goods sold by consignee**<br>Bank A/c<br>To Consignee A/c | Dr. | (2) | **For Goods sold by consignee**<br>Consignee A/c<br>To Consignment A/c | Dr. |
| (3) | **For closing stock**<br>Nil | | (3) | **For closing stock**<br>Stock on Consignment A/c<br>To Consignment A/c | Dr. |

**When goods were sent at invoice price**

| | Entries already passed | | | Correcting Entries | |
|---|---|---|---|---|---|
| (1) | **For Goods sent**<br>(a) Consignee A/c<br>To Sales A/c | Dr. (invoice price) | (1) | **For Goods sent**<br>(a) Sales A/c<br>To Consignee A/c | Dr. (invoice price) |
| | | | | (b) Consignment A/c<br>To Goods Sent on Consignment A/c | Dr. (invoice price) |
| | OR<br>(b) Consignee A/c<br>To Goods Sent on Consignment A/c | Dr. (invoice price) | | OR<br>(b) Consignment A/c<br>To Consignee A/c | Dr. (invoice price) |
| (2) | **For Goods sold by consignee**<br>Bank A/c<br>To Consignee A/c | Dr. (sales value) | (2) | **For Goods sold by consignee**<br>Consignee A/c<br>To Consignment A/c | Dr. (sales value) |
| (3) | **For closing stock**<br>Nil | | (3) | **For closing stock**<br>Stock on Consignment A/c<br>To Consignment A/c | Dr. (invoice price) |
| | | | (4) | **For Loading on Goods sent**<br>Goods Sent on Consignment A/c<br>To Consignment A/c | Dr. |
| | | | (5) | **For Loading on Unsold goods**<br>Consignment A/c<br>To Stock Reserve | Dr. |

### *Illustration 46*

In the Sales Ledger of XY Goods Co, the following account appears :

**Dr.** **Ram** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 2017 | | | 2017 | | |
| May 10 | To Goods | 12,000 | July 5 | By Cash | 5,000 |
| | To Expenses | 720 | July 31 | By Balance c/d | 7,720 |
| | | 12,720 | | | 12,720 |

Upon enquiry you find that the debit to Ram of ₹ 12,000 represented goods costing ₹ 10,000 delivered to him on the understanding that he will try to sell them in his own make, or otherwise return them. For this he is to be allowed a commission of 10 per cent on all sales effected, out of which he is to defray the expenses that he may incur.

On 31st July, 2017 when XY Goods Co make up their annual accounts, it is learnt that Ram has sold half the goods at the prices at which they were invoiced to him but is doubtful about his ability to sell the remaining. He, therefore, proposes to offer his customers a special trade discount of 20 per cent and to waive any further sales commission. To this, XY Goods Co agreed and took this information into account when closing their books. You are required: (a) to show the necessary corrective entries in the firm's journal; (b) to set out the account of Ram as it will appear when the Journal entries have been posted; and (c) to state clearly the resultant profit or loss on the matter.

**Solution :** In the above question, the goods sent on consignment to Ram has been wrongly treated as Sales. In order to set the accounts right, the following correcting entries will have to be passed in the books of the Company.

**Journal**

| Date | Particulars | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|---|
| 2017 July 31 | Goods (Sales) A/c | Dr. | 12,000 | |
| | Consignment to Ram A/c | Dr. | 720 | |
| | To Ram A/c | | | 12,720 |
| | (Being cancellation of wrong entry and expenses on consignment charged to Consignment A/c) | | | |
| | Consignment to Ram A/c | Dr. | 12,000 | |
| | To Goods Sent on Consignment A/c | | | 12,000 |
| | (Being the invoice price of goods sent to Ram on consignment) | | | |
| | Ram A/c | Dr. | 6,000 | |
| | To Consignment to Ram A/c | | | 6,000 |
| | (Being goods sold by Ram) | | | |
| | Consignment to Ram A/c | Dr. | 600 | |
| | To Ram A/c | | | 600 |
| | (Being commission payable to Ram) | | | |
| | Goods Sent on Consignment A/c | Dr. | 2,000 | |
| | To Consignment A/c | | | 2,000 |
| | (Being loading on goods sent to Ram) | | | |
| | Stock on Consignment A/c | Dr. | 6,360 | |
| | To Consignment A/c | | | 6,360 |
| | (Being value of stock at invoice price) | | | |
| | Consignment A/c | Dr. | 1,560 | |
| | To Stock Reserve A/c | | | 1,560 |
| | (Being required reserve on stock) | | | |
| | Profit & Loss on Consignment A/c | Dr. | 520 | |
| | To Consignment to Ram A/c | | | 520 |
| | (Being loss on consignment transferred) | | | |
| | Goods Sent on Consignment A/c | Dr. | 10,000 | |
| | To Purchases A/c | | | 10,000 |
| | (Being the adjustment to goods sent on consignment) | | | |

**Dr. Ram Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.7.2017 | To Balance c/d | 7,720 | 31.7.2017 | By Goods A/c (sales) | 12,000 |
| " | To Consignment to Ram A/c (sales) | 6,000 | " | By Consignment to Ram A/c | 720 |
| | | | " | By Consignment to Ram A/c | 600 |
| | | | " | By Balance c/d | 400 |
| | | 13,720 | | | 13,720 |

**Dr. Consignment to Ram Account Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.7.2017 | To Goods Sent on Consignment A/c | 12,000 | 31.7.2017 | By Ram A/c | 6,000 |
| " | To Ram A/c (expenses) | 720 | " | By Goods Sent on Consignment A/c | 2,000 |
| " | To Ram A/c (commission) | 600 | " | By Stock on Consignment A/c | 6,360 |
| " | To Stock Reserve A/c | 1,560 | " | By Profit & Loss on Consignment A/c | 520 |
| | | 14,880 | | | 14,880 |

**Working Notes** : **Valuation of Closing Stock**

| | ₹ | | ₹ |
|---|---|---|---|
| Invoice price of goods sent | 12,000 | Value of 1/2 goods | 6,360 |
| Add: Expenses | 720 | Less: Market value (₹ 6,000 – ₹ 1,200) | 4,800 |
| Value of goods at invoice price | 12,720 | Stock Reserve | 1,560 |

### *Illustration 47*

Nripesh consigns goods to Dharani, his agent at Dhanbad, at cost price of ₹ 40,000. Nripesh's accountant, at the end of the year, drew up the agent's account as under (all figures in rupees) :

**Dr.** **Dharani Account** **Cr.**

| | | | |
|---|---|---|---|
| To Goods | 40,000 | By Cash | 25,000 |
| To Cash — freight and insurance | 3,000 | By Balance c/d | 19,300 |
| To Profit and Loss A/c | 1,300 | | |
| | 44,300 | | 44,300 |

Dharani sold part of the goods for ₹ 45,000, which exceeded by ₹ 9,000 over invoice price. He collected ₹ 38,000 after allowing discount of ₹ 2,000 to customers, bad debts came to ₹ 1,000 and his expenses ₹ 800 (including ₹ 200 for unloading and cartage). Dharani was entitled to a commission of 5% on cash collected.

From the above information, draw up the following accounts in the books of Nripesh :

(a) Consignment Account; (b) Consignment Debtors Account; (c) Dharani Account.

**Solution** **In the books of Nripesh**

**Dr.** **Consignment to Dhanbad Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods Sent on Consignment A/c | 40,000 | | By Consignment Debtors A/c | 45,000 |
| | To Dharani A/c : | | | By Stock on Consignment A/c (Note 1) | 4,320 |
| | Freight and Insurance | 3,000 | | | |
| | Unloading and Cartage | 200 | | | |
| | Other Expenses | 600 | | | |
| | Commission (5% on ₹ 38,000) | 1,900 | | | |
| | To Consignment Debtors A/c : | | | | |
| | Discount Allowed | 2,000 | | | |
| | Bad Debts | 1,000 | | | |
| | To Profit and Loss on Consignment A/c | 620 | | | |
| | | 49,320 | | | 49,320 |

**Dr.** **Consignment Debtors Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Consignment to Dhanbad A/c | 45,000 | | By Dharani A/c (cash collected) | 38,000 |
| | | | | By Consignment to Dhanbad A/c : | |
| | | | | Discount Allowed | 2,000 |
| | | | | Bad Debts | 1,000 |
| | | | | By Balance c/d | 4,000 |
| | | 45,000 | | | 45,000 |

**Dr.** **Dharani Account** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Balance b/d (Note 3) | 19,300 | | By Goods A/c (Note 2) | 40,000 |
| | To Consignment Debtors A/c | 38,000 | | By Profit and Loss A/c (Note 2) | 1,300 |
| | | | | By Consignment to Dhanbad A/c : | |
| | | | | Freight and Insurance | 3,000 |
| | | | | Unloading and Cartage | 200 |
| | | | | Other Expenses | 600 |
| | | | | Commission | 1,900 |
| | | | | By Balance c/d | 10,300 |
| | | 57,300 | | | 57,300 |

**Working Notes :**

**(1) Calculation of Stock on Consignment**

| Here, invoice price means the price indicated in the proforma invoice which is nothing but **cost price**. | ₹ |
|---|---|
| Cost of goods sent | 40,000 |
| Less: Cost of goods sold ₹ (45,000 – 9,000) | 36,000 |
| Cost of stock on consignment | 4,000 |
| Add: Proportionate non-recurring expenses (₹ 3,000 + 200) / 40,000 × 4,000 | 320 |
| Value of stock on consignment | 4,320 |

**(2)** Goods and profit debited to Dharani have been reversed.

**(3)** Dharani account starts with the balance given in the question.

## Key Points

- The person sending the goods is called the ***consignor*** and the agent who receives the goods is called the ***consignee***.
- An ***Account Sales*** is a statement which is periodically rendered by the consignee to the consignor, showing the details about the goods sold, price realized, his own commission, and the expenses incurred in connection with the sale.
- The primary objective for preparing the Consignment Account is to ascertain the profit or loss on each consignment separately.
- ***Del Credere Commission*** is an additional commission paid to a consignee who guarantees the payment in case of credit sale. Where the consignee gets del credere commission, he indemnifies the consignor for all bad debts.

## THEORETICAL QUESTIONS

1. What is a Consignment Account? Distinguish between sale and consignment.
2. What is an Account Sales? Prepare an Account Sales with assumed data.
3. What is del credere commission? Why is it given to the consignee?
4. What are non-recurring expenses? Give some examples.
5. What is a Proforma Invoice? Prepare a Proforma Invoice with assumed figures.
6. State the procedure of valuation of closing stock on consignment.
7. How is abnormal loss treated in Consignment Account ?
8. (a) When consignor sends goods to the consignee, why no entry is passed in the books of consignee ?
   (b) Why recurring expenses are not considered for valuing unsold stock on consignment ?
9. Who pays del credere commission ? Why is commission paid ?

## OBJECTIVE QUESTIONS

### Multiple Choice

Select the best choice to complete each statement or answer each question below.

1. Consignee becomes a debtor of the consignor when
   **A** the goods are despatched
   **B** the goods are received
   **C** the goods are sold.
2. An account sales is a statement which shows the details about the
   **A** goods received
   **B** goods sold
   **C** goods lying unsold.
3. Del credere commission is given when the consignee
   **A** sells all the goods on credit
   **B** gets no ordinary commission
   **C** bears the loss of bad debts.
4. No journal entry is required to be passed when there is
   **A** normal loss
   **B** abnormal loss in transit
   **C** abnormal loss in consignee's godown.
5. Del credere commission that is given to the consignee is to cover
   **A** normal loss
   **B** abnormal loss
   **C** loss of bad debts.
6. Del credere commission is calculated on
   **A** total sales **B** cash sales **C** credit sales.

## PRACTICAL QUESTIONS

### Cost Price Method

1. C of Calcutta sent 100 bicycles to B of Mumbai to be sold on consignment basis on 1.1.2016. The cost of each bicycle was ₹ 800, C incurred ₹ 500 for freight, ₹ 750 for cooli charges and ₹ 850 for insurance premium.

   On 31.12.2016, C received on Account Sales from B, which showed that he sold 80 bicycles @ ₹ 1,200 each and after deducting his commission and expenses amounting to ₹ 20,000, he sent the balance amount by a draft with the Account Sales. According to contract, B is entitled to get ordinary commission @ 10% and del credere commission @ 5% on sale proceeds. Show important Ledger Accounts in the books of both the parties.

2. On 1st January, 2016 Sadhan Sen of Sodepur sent 1,000 units of silk goods to Biren Bose of Berhampur .The goods cost ₹ 75,000 to Sadhan and these were sent on consignment basis. Sadhan had to incur an expenditure of ₹ 1,500 on the goods. On the due date, the goods reached the destination and Biren had to spend on the goods ₹ 1,000 on various accounts.

   On 30th September, 2016 an Account Sales was received by Sadhan showing that 750 units were sold at ₹ 150 each. Biren charged 5% ordinary commission and $7^1/_2$% del credere commission. The consignee sent with the Account Sales a sight draft for ₹ 90,000 only. You are required to prepare the Account Sales and the necessary Journal entries and Ledger accounts in the books of both the parties.

3. On 1st January, 2017, C of Calcutta sends 1,000 boxes of clothing to M of Madras on consignment basis. The goods in each box cost ₹ 200. C pays railway freight and insurance ₹ 500 and draws upon M a bill for ₹ 10,000 which is duly accepted.

   On 2nd April, 2017, M forwards an Account Sales to C showing that 500 boxes have been sold at ₹ 250 per box while 300 boxes were sold at ₹ 260 per box and 200 boxes remained in stock unsold. The expenses incurred by M consisted of carriage ₹ 100 and other charges ₹ 2,000. M is entitled to a commission @ 5% on the gross sale proceeds. He encloses a cheque for the balance due to C.

   Show the Consignment Account and M Account in the books of C.

4. On 1.1.2017, Amar Mills of Calcutta consigned 5,000 Kg of oil to Vijay Stores of Madras. Each Kg of oil costs ₹ 8. Amar Mills paid ₹ 50 as carriage, ₹ 250 as freight and ₹ 200 as insurance. During transit, 500 Kg were accidentally destroyed for which the Insurance company paid directly to consignor ₹ 2,500 in full settlement of the claim. On 1.4.2017, Vijay Stores of Madras reported that 3,500 Kg of oil were sold @ ₹ 9.50 per Kg. and expenses being: Godown rent ₹ 500 and salesman's salary ₹ 750. Vijay Stores is entitled to a 5% commission on sales. Vijay Stores also reported a loss of 20 Kg due to leakage. Show (i) Consignment to Madras Account; (ii) Vijay Stores Account; (iii) Consignment Stock Account in the books of the consignor.

5. Karnath sold goods on behalf of Vijay Sales Corporation on consignment basis. On January 1, 2016, he had with him a stock of ₹ 20,000 on consignment.

   Karnath had instructions to sell the goods at cost plus 25% and was entitled to a commission of 4% on sales, in addition to 1% del credere commission on total sales for guaranteeing collection of all the sale proceeds.

   During the year ended 31st December, 2016, cash sales were ₹ 1,20,000, credit sales ₹ 1,05,000 and Karnath's expenses relating to the consignment ₹ 3,000 being salaries and insurance. Bad debts were ₹ 3,000 and goods sent on consignment ₹ 2,00,000. From the above, prepare Consignment Account in the books of Vijay Sales Corporation, and important ledger accounts in the books of Karnath.

6. On 1st July, 2016, Sengupta of Calcutta sent 150 cases of goods at a cost of ₹ 750 per case to Kapoor of Bombay on consignment basis and paid ₹ 1,900 for insurance premium, ₹ 3,500 for freight and ₹ 2,600 for dock charges. On arrival of the goods, Kapoor sent a bank draft for ₹ 10,000 to Sengupta on 30th July, 2016 and paid ₹ 2,500 for clearing charges, ₹ 870 for cartage and ₹ 750 for godown rent. 5 cases were damaged in transit and a sum of ₹ 3,500 was realized by way of compensation from the insurance company. Up to 31st December, 2016, 100 cases were sold for ₹ 1,05,000 incurring a bad debt of ₹ 1,150. Kapoor was entitled to a commission of 5% on the gross sales with further 2% as del credere commission. The amount due to Sengupta up to 31st December, 2016 was remitted by a bank draft.

   Show (a) Consignment Account; (b) Kapoor Account; and (c) Consignment Stock Account in the books of Sengupta.

7. Raja of Calcutta consigned on 1st April, 2016 to Praja of Burdwan 50 TV sets at ₹ 6,000 per set. Raja incurred the following expenses on the consignment : Freight ₹ 1,000; Insurance and other charges ₹ 500. The consignee paid ₹ 980 as non-recurring and ₹ 1,000 as recurring expenses. On the way a set was damaged in full for which the insurance company admitted ₹ 5,600. Praja sent an Account Sales on 1st December, 2016 indicating that 45 sets had been sold at ₹ 6,800 per set. The Account Sales was accompanied by the necessary bank draft deducting commission @ 5% and del credere commission @ $2^1/_2$%.

   Assuming Raja closes his books on 31st December, 2016 give the ledger accounts to record the above transactions.

8. Naresh consigns 1,000 bats costing ₹ 500 each to Swaroop for sales and incurs ₹ 4,000 towards freight and ₹ 1,000 for insurance. Swaroop was able to take delivery of 900 bats only and 100 bats were destroyed in transit. The insurance company admitted the claim and paid the same. Swaroop will be entitled to a commission of 5% on sales and 2% del credere commission on credit sales only. He will be entitled for additional commission of 25% of the excess if the sale price exceeds the cost price by more than 20%. Swaroop has spent ₹ 2,000 towards sales expenses. The sales are as follows : 500 bats at ₹ 600 per bat cash; 200 bats at ₹ 700 per bat credit
Consignment debtors paid their dues except one customer to whom 4 bats were sold for ₹ 2,800 could pay only ₹ 800.
Show the Consignment Account, the Consignment Debtors Account, Swaroop Account and commission calculation
***[C.A.(Entrance) —Adapted]***

9. Ramesh Oil Mills, Bombay, consigned 40,000 kg of castor oil in 10 kg tins to B N Chatterjee, Calcutta, on 1st April, 2017. The cost of oil was ₹ 2 per kg. The consignors paid ₹ 10,000 as freight and insurance. During transit 50 tins were totally destroyed for which the insurance company paid directly to the consignor, ₹ 900 in full settlement of the claim. B N Chatterjee took delivery of the consignment on 10th April, and accepted a bill drawn on him by the Ramesh Oil Mills for ₹ 20,000 for three months. On June 30, 2017 B N Chatterjee reported that 35,000 kg were sold @ ₹ 3 per kg. The expenses were as follows: Godown rent ₹ 400; advertisement ₹ 2,000; and salaries of salesmen ₹ 4,000.
B N Chatterjee charged a commission of 3% plus 3% del credere commission. He sold ₹ 19,000 worth of oil, the remaining stock, to X & Co who were declared bankrupt after two months and only 50 paise per rupee were realised from them.
Show accounts in the books of both the parties assuming that the consignee paid the amount due by bank draft.

10. On July 1, 2016 A had consigned to B goods costing ₹ 50,000, on which A paid freight and insurance amounting to ₹ 2,500. On September 30, 2016, B's first Account Sales was received, showing that he had effected sales for ₹ 32,000 of which ₹ 30,000 had been received in cash. His expenses to date were ₹ 2,000 and commission 5% on gross sales. On receipt of the Account Sales the Consignment Account was balanced off, stock being valued at ₹ 28,000. A further Account Sales was received on December 31, 2016 showing that the balance of the goods had been sold for ₹ 36,000 and the cash collected. Debtors had also paid their dues less discount of 3%. The expenses of B were ₹ 2,500. The rate of his commission was the same as before.
Write up the Consignment Account and B Account up to December 31, in the books of A assuming that B remitted the balance due with each Account Sales.

11. M/s Abubacker and Sons, Madras, sent to their agents, M/s Chinnadurai and Bros in Ceylon on February 12, 2017 a consignment of hides and skins costing ₹ 24,000. They incurred ₹ 1,200 on freight and packing and ₹ 300 towards insurance. They drew a bill on the agent for ₹ 20,000 at three months' sight. It was accepted by the agent and returned on February 20. A commission at 5% and a del credere commission at 1% was agreed to be payable on sales to the agent. It was found that due to faulty packing, goods invoiced at ₹ 2,200 were damaged and the claim was not admitted by the insurer.
However, these damaged goods were sold by the consignor as scrap for ₹ 1,250. Half of the goods on consignment were sold for cash on March 7 for ₹ 14,600 and the balance on March 12, 2017 on credit for ₹ 18,200. The agent incurred landing and storage expenses of ₹ 600 and ₹ 800 respectively in connection with these sales. Deducting his commission and expenses, he remitted the balance by draft on March 15, 2017 which was received in Madras on March 18. Show the Consignment Account and the Consignee Account as they would appear in the books of M/s. Abubacker and Sons.

12. Oil India Ltd of Bombay consigned 1,000 barrels of Lubricant oil costing ₹ 800 per barrel to Central Oil Company, Calcutta, on 1st Jan 2017. Oil India Ltd paid ₹ 50,000 as freight and insurance. 25 barrels were destroyed on 7.1.2017 in transit. The insurance claim was settled at ₹ 15,000 and was paid directly to the consignor.
Central Oil Co took delivery of the consignment on 19th Jan 2017 and accepted a bill drawn upon them by Oil India Ltd for ₹ 5,00,000 for 3 months on 31st March, 2017. Central Oil Co reported as follows:
(i) 750 barrels were sold at ₹ 1,200 per barrel.
(ii) Other expenses: unloading ₹ 2,500; wages of salesman ₹ 50,000; printing ₹ 21,300; and godown rent ₹ 10,000.
(iii) 25 barrels of oil were lost due to leakage which is considered to be a normal loss.
Central Oil Co is entitled to a commission of 5% on all the sales effected by them. Central Oil Co paid the amount due in respect of the consignment on 31st March itself.
Show the Consignment Account, the account of Central Oil Co. and the loss in transit account as they will appear in the books of Oil India Ltd.

13. Rahim of Calcutta consigned 100 cases of medicine. Costing ₹ 1,000 per case to Karim of Kanpur on 1.1.2017. The goods were to be sold at 25% above cost. Any deficiency in the selling price was to be borne by Karim. Karim was, however, entitled to a special commission @ 25% of any surplus price realised. Karim was further entitled to an ordinary commission of 5% and del credere commission of $2^1/_2$% on all sales.
Rahim incurred the following expenses:
Packing charges ₹ 6,000; loading charges ₹ 1,000; lorry charges ₹ 12,000; and railway freight ₹ 21,000
The cases were received by Karim on 15.1.2017. The Account Sales received from Karim on 30.6.2017 revealed the following: 40 cases sold on 21.3.2017 @ ₹ 1,500 per case, 30 cases sold on 24.5.2017 @ ₹ 1,200 per cases, 10 cases sold on 30.6.2017 @ ₹ 1,300, 5 cases were stolen by a dishonest employee.
A compensation of ₹ 2,000 was realised from him. Karim incurred unloading charges of ₹ 2,000 and warehouse rent ₹ 3,000. Karim enclosed a bank draft for the balance due. Write up necessary accounts in the books of Rahim.

14. X consigned goods costing ₹ 1,60,000 to A. The terms of the consignment were:
(a) Consignee to get commission of 5% on cash sales and 4% on credit sales.
(b) Any goods taken by consignee himself or goods lost through consignee's negligence, shall be valued at original cost plus $12^1/_2$% and no commission will be allowed on them.
The expenses incurred by the consignor were: Carriage and freight ₹ 6,720 and insurance ₹ 3,440. The consignor received ₹ 50,000 as advance against the consignment. Account Sales together with a draft for the balance due was received by the consignor showing the following position:
Goods costing ₹ 1,28,000 were sold for cash at ₹ 1,40,000 and on credit at ₹ 1,08,000. Goods costing ₹ 8,000 were taken by A and goods costing ₹ 4,000 were lost through A's negligence. The expenses incurred by A were: advertisement ₹ 1,720; and other selling expenses ₹ 1,080.
Show the ledger accounts in the books of X.

15. Mr Krishna Murty requests you to prepare a Consignment Account for the year ended 30.6.2017 and for this purpose gives you the following information to ascertain the profit earned on consignment.
(i) Agent's commission @ 5% on gross sales ₹ 20,000.
(ii) Cost of goods fully damaged in transit (insurance claim recovered ₹ 18,000).
(iii) Expenses incurred by the agent : godown rent ₹ 400; landing and clearing ₹ 1,000; advertisements ₹ 200; transport charges ₹ 900; selling expenses ₹ 1,000.
(iv) Freight expenses incurred by Krishna Murty ₹ 2,000.
(v) Cost of unsold stock lying with the agent at the end of the year ₹ 60,000.
All sales were effected by the agent at a profit of 25% on cost.

16. B of Bombay consigned 400 packages of coffee to K of Kanpur. The cost of each package was ₹ 300. A sum of ₹ 2,000 was paid towards freight and insurance by B. In the transit, 60 packages were damaged. However, the consignor received ₹ 400 for the damaged packages from the insurance company.
The consignee accepted a Bill of Exchange for ₹ 60,000 for 60 days as an advance to B of Bombay. The operating statement from the consignment disclosed the following information :
(a) 280 packages were sold @ ₹ 360 per package.
(b) The damaged packages were sold @ ₹ 100 per package.
(c) He also paid ₹ 1,400 towards godown rent, ₹ 1,000 for carriage outward and ₹ 3,400 towards clearing charges.
The consignee is entitled to a commission of 10% on the sale proceeds.
At the end of the consignment period, K of Kanpur sent a bank draft to B of Bombay You are required to prepare the necessary accounts on the books of consignor B of Bombay.

17. On 1.4.2017, X of Delhi consigned 550 tins of oil to Y of Calcutta. Each tin contains 1.5 Kg of oil. The cost is ₹ 21 per kg. This is to be sold at $33^1/_3$% above cost. Y is to be paid 3% ordinary and 2% del credere commission on sales on the basis of the price specified above.
Any deficiency in the selling price is to be fully borne by Y, while only 50% of any surplus price realised may be retained by him. X incurred freight and insurance ₹ 3,300. 20 tins were stolen in transit and the insurance company paid ₹ 5,500 in final settlement. Y accepted a bill for 3 months for ₹ 40,000 which was discounted by X for ₹ 39,600. Y sent an account sales which showed that 50 tins were sold @ ₹ 29 per Kg, 200 Kg @ ₹ 32 per kg and from the remaining tins 3,750 Kg of oil were sold @ ₹ 34 per Kg.
Y paid ₹ 4,270 on clearing charges and ₹ 1,200 as selling expenses. 50 Kg of oil were lost due to leakage which was considered as normal loss. Y collected entire sale proceeds except ₹ 400 which became irrecoverable.
Prepare the Ledger Account in the books of X.

18. Reema consigns goods to Sunita to be sold at above invoice price, Sunita is to get commission of 5% on sales at invoice price, plus 25% of any surplus price realised. Reema received from Sunita on advance of 75% of the invoice price; the accounts being settled by Bank Drafts immediately on sales.

During the year Reema consigned to Sunita goods worth ₹ 3,60,000, the invoice price of which was ₹ 5,00,000. This includes freight, sales by Sunita during the year amounted to ₹ 4,30,000, goods unsold on 31.3.12017 with Sunita were of invoice price of ₹ 1,50,000 (cost including freight ₹ 1,00,000). Reema had received from Sunita by bank draft during the year ₹ 90,000, certain remittances being in transit on 31.3.2017.

Show the Consignment to Sunita Account and Consingee's (Sunita) Account in the books of Reema.

**Invoice Price Method**

19. A of Bombay sent goods on consignment basis, to B of Calcutta at an invoice price of 25% on cost which was to be sold for general commission of 10% on gross sales plus a special commission of 25% on excess of sale proceeds less all commission over the invoice price. A sent 100 boxes of tea at an invoice price of ₹ 500 per box and incurred ₹ 1,000 as freight, ₹ 500 as insurance and ₹ 300 as general expenses. B paid the following expenses: Clearing charges ₹ 400; carriage ₹ 200; godown rent ₹ 600; insurance ₹ 300 and miscellaneous selling expenses ₹ 200.

It was found that 10 boxes were lost in transit and another 10 boxes were still in transit. Insurance claim in respect of goods lost was settled at ₹ 3,500. B sold 50 boxes for ₹ 35,000 and sent a bank draft for the amount due.

You are required to show the necessary ledger accounts in the books of A (Calculations are to be shown separately).

20. Mr Achut of Bombay consigned 100 units of a commodity to Mr. Rao of Delhi. The goods were invoiced at ₹ 150 so as to yield a profit of 50 per cent on cost. Mr.Achut incurred ₹ 1,000 on freight and insurance. Mr. Rao incurred ₹ 500 on freight and ₹ 800 on rent. Before December 31, 2016, he sold 50 units for cash at ₹ 160 per unit, 20 units for ₹ 175 on credit. He retained his commission at 5% and 1% for the del credere arrangements and remitted the balance on December 31, 2016. Mr. Rao noticed that 10 units were damaged on account of bad packing and he could sell them only for ₹ 80 per unit. A debtor for ₹ 1,000 to whom the goods were sold by Mr Rao became insolvent and only 50 paise in a rupee was recovered. Mr Rao sent an Account Sales on March 31, 2017 detailing the transactions for the quarter ended on that date and he remitted the balance due. Make necessary ledger accounts in the books of Achut and Mr Rao assuming that Mr Achut closes his books every 31st March.

21. X of Delhi purchased 10,000 meters of cloth for ₹ 2,00,000 of which 5,000 meters were sent on consignment to Y of Agra at the selling price of ₹ 30 per meter. X paid ₹ 5,000 for freight and ₹ 500 for packing etc.

Y sold 4,000 meters at ₹ 40 per meter and incurred ₹ 2,000 as selling expenses. Y is entitled to a commission of 5% on total sale proceeds plus a further 20 per cent on any surplus price realised over ₹ 30 per meter. 3,000 meters were sold at Delhi at ₹ 30 per meter less ₹ 3,000 for expenses and commission. Owing to a fall in the market price, the stock of cloth in hand is to be reduced by 10 per cent. Prepare the Consignment Account and the Trading and Profit and Loss Account in the books of X and his Account in the books of Y.

22. On 1st December, 2016, 100 radio sets were sent on consignment by Kolay & Co of Bombay to Paul & Co of Calcutta at a Proforma Invoice price of ₹ 1,800 each (including a profit of 20% on cost). Kolay & Co paid freight, insurance and other charges amounting to ₹ 8,000. 2 radio sets were totally damaged in transit and as such were thrown away. Paul & Co incurred an expenditure of ₹ 980 for loading and unloading of the consignment and took delivery of the remaining radio sets and sent a cheque for ₹ 90,000 as security against the goods to Kolay & Co. On 31st December, 2016, Paul & Co sent an Account Sales showing that 90 radio sets were sold at 10% above their proforma invoice price and expenses incurred in connection with sales amounted to ₹ 2,208.

Paul & Co was entitled to an ordinary commission of 5% and del credere commission of 1% on sales. Paul & Co could not realize ₹ 500 from a customer to whom a radio set was sold on credit and accordingly that became a bad debt. Along with the Account Sales Paul & Co sent a bank draft to Kolay & Co for the net amount due.

You are required to show the Consignment Account and the Consignee Account and Advance Against Consignment Account in the books of the consignor.

23. Rama consigned goods to Ravindran, his agent at New Delhi at cost price of ₹ 40,000. Rama's accountant, at the end of the year, drew up the agent's account as under:

**Dr.** **Ravindran** **Cr.**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| | To Goods | 40,000 | | By Cash | 24,000 |
| | To Profit & Loss A/c | 3,300 | | By Balance c/d | 19,300 |
| | | 43,300 | | | 43,300 |

Ravindran sold the goods for ₹ 45,000, which exceeded by ₹ 9,000 their invoice value. He collected ₹ 38,000 after allowing discount of ₹ 2,000 to customers. Bad debts come to ₹ 1,000 and his expenses to ₹ 800. Ravindran was

entitled to a 5% commission on cash collected. Balance of stock is to be valued at invoice prices. From the above information, draw the accounts of Ravindran, Consignment and Consignment Debtors in the books of Rama.

24. Roy Brothers of Calcutta sent goods costing ₹ 60,000 to Patel Brothers of Bombay on 10th September, 2015, on consignment basis. The invoice price was made by adding 25% of the cost. Roy Brothers of Calcutta paid the following expenses in connection with the despatch of goods : Packing ₹ 350, carriage ₹ 550 and other expenses ₹ 960.

On 25th September 2015, after receiving the goods Patel Brothers paid ₹ 850 as freight and ₹ 450 as carriage for taking goods to their godown and forwarded a three months' bill for ₹ 15,000 to Roy Brothers.

On 31st December, 2015 Patel Brothers sent an Account Sales to Roy Brothers. Roy Brothers of Calcutta came to know from the Account Sales that Patel Brothers had sold half of the goods at ₹ 40,000 in cash and ₹ 20,000 on credit out of which ₹ 7,000 had already been collected by Patel Brothers. The expenses deducted by Patel Brothers also include ₹ 450 for fire insurance. Patel Brothers were entitled to an ordinary commission of 5% and del credere commission of $2^1/_2$% on gross sales.

On April 30, 2016 a second Account Sales was sent by Patel Brothers. It showed that half of the remaining goods were sold by Patel Brothers at ₹ 15,000 in cash and ₹ 10,000 on credit. Their expenses during the period were ₹ 250 for fire insurance and ₹ 150 for other expenses. The remaining goods could not be sold and were brought back by Roy Brothers on 31st August 2016, at a further cost of ₹ 1,000. These goods were damaged on the way and were valued at 40% below their cost price. Patel Brothers remitted with each Account Sales the balance due from them and Roy Brothers close their books of accounts on 31st December each year. Patel Brothers were able to collect all that was due from the debtors till 31st December, 2016 except ₹ 1,500 from a debtor, which was treated as bad debt.

Draw up the Consignment Account, Patel Brothers' Personal Account and Goods sent on Consignment Account in the books of Roy Brothers of Calcutta.

## Guide to Answers

### Multiple Choice

**1. C 2. B 3. C 4. A 5. C 6. A**

### Practical Questions

1. **Loss on Consignment ₹ 4,080; Stock ₹ 16,420; Amount received ₹ 61,600.**
2. **Profit ₹ 40,062; Stock ₹ 19,125; Amount due ₹ 7,437.**
3. **Profit ₹ 30,370; Stock ₹ 40,120; Final Payment ₹ 1,80,750.**
4. **Profit on Consignment ₹ 1,860; Stock on Consignment ₹ 7,973; Balance due ₹ 30,337; Abnormal Loss ₹ 1,550.**
5. **Profit on Consignment ₹ 30,750; Value of Stock on Consignment ₹ 40,000.**
6. **Profit on Consignment ₹ 14,243; Abnormal Loss ₹ 4,017; Stock on consignment ₹ 37,196.**
7. **Profit ₹ 9,800; Stock ₹ 24,200; Abnormal Loss ₹ 6,030; Final Payment ₹ 2,81,070.**
8. **Profit ₹ 54,700; Stock ₹ 1,01,000; Abnormal Loss ₹ 50,500; Commission (₹ 22,000 + ₹ 2,800 + ₹ 5,000) ₹ 29,800.**
9. **Profit ₹ 21,285; Abnormal Loss ₹ 1,125; Final Payment received ₹ 90,160.**
10. **Profit (₹ 3,900 + ₹ 3,640) = ₹ 7,540; Payment (₹ 26,400 + 31,700).**
11. **Profit ₹ 6,325; Abnormal Loss ₹ 2,393 (₹ 2,200 + ₹ 138 + ₹ 55).**
12. **Profit ₹ 1,17,450; Abnormal Loss ₹ 21,250; Stock (8,31,250 / 950) x 200 = ₹ 1,75,000.**
13. **Loss ₹ 16,900; Commission (8,175 + 2,625 – 1,500) = ₹ 9,300; Goods stolen ₹ 7,100; Stock on Consignment ₹ 21,300.**
14. **Profit ₹ 98,490; Stock ₹ 21,270; Goods lost ₹ 4,500; Goods taken over ₹ 9,000; Commission ₹ 11,320.**
15. **Profit on consignment ₹ 55,200; Stock on consignment ₹ 60,600; Abnormal Loss charged to Profit and Loss Account ₹ 2,100.**
16. **Profit on consignment ₹ 120; Abnormal Loss ₹ 12,500; Stock on consignment ₹ 18,900.**
17. **Profit on consignment ₹ 50,315; Stock on consignment ₹ 8,830; Abnormal Loss ₹ 920.**
18. **Profit on consignment ₹ 1,32,500.**
19. **Profit ₹ 7,825; Abnormal Loss ₹ 5,180 (Invoice price); Loading on Abnormal Loss ₹ 1,000; Stock ₹ 20,945; (₹ 5,180 + ₹ 15,765); Stock Reserve (total) ₹ 4,000. Final Payment ₹ 28,500.**
20. **Profit ₹ 1,960; Stock (Good units) ₹ 3,300 (invoice price); Damaged Stock ₹ 752 (₹ 800 – ₹ 48) at cost; Stock Reserve on good units ₹ 1,000; Abnormal Loss charged to P/L 398 (₹ 1,150 – 752).**
21. **Profit on Consignment ₹ 53,600; Gross Profit ₹ 26,000; Net Profit ₹ 76,600; Stock Reserve ₹ 14,000.**
22. **Profit on Consignment ₹ 22,200; Stock on Consignment ₹ 15,120; Amount received from Pal & Co ₹ 81,520.**
23. **Profit on Consignment ₹ 3,300; Stock on Consignment ₹ 4,000; Balance due from Consignment Debtors ₹ 4,000.**
24. **Profit on consignment for the year 2015 ₹ 23,470. Value of unsold stock on 31.12.2015 ₹ 39,080; Stock reserve ₹ 7,500. Loss for the year 2016 ₹ 855 (charging expenses for goods returned); Value of returned goods ₹ 9,000.**